M&A Negotiations and Lawyer Expertise

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Abstract

We shed light on the effects of lawyer expertise on contract design in the context of M&A negotiations. Using proprietary data on 151 private transactions, we document that lawyer expertise significantly affects contract design. More lawyer expertise is associated with more beneficial contractual outcomes in terms of warranties, implicit risk-shifting, and in terms of length of the negotiation among other outcomes. In order to address concerns about the endogenous allocation of lawyers to deals or clients, we exploit firms' inclination to work with the same lawyer ("house lawyer") on subsequent deals and restrict the analysis to repeated deals. We also perform lawyer fixed-effect and client fixed-effect analyses. Our results help explain the importance of league table rankings and the variation in legal fees within the legal M&A services industry.

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1. Introduction

Contracts play a fundamental role in markets. As McLeod (2007) puts it,"The ability to enter into binding agreements is … an essential ingredient of economic growth." Yet, the economic analysis of contract design is still largely dominated by the traditional contract-theory prediction of optimal equilibrium contract design. While our standard models acknowledge the role of informational asymmetries, financial constraints, and similar frictions, there is little room for "well-designed versus less well-designed" contracts.

In this paper, we provide evidence of the influence of the negotiating parties on the ultimate contractual outcome. We test whether the empirical contract design reflect the experience or educational background of the parties involved in the contract negotiation. These types of questions are ignored under the standard paradigm of "optimal contract design," but are likely to be important in practice.

We investigate these questions in the context of acquisitions of private targets. We test whether we can detect measurable benefits of lawyers' expertise for the party they represent. Specifically, we ask how contractual clauses and the process of negotiation reflects the experience or educational background of individual lawyers.

Prior literature has produced evidence on how the characteristics of buyers, sellers, and investment banks affect M&A outcomes.[1] To the contrary, we know little about how lawyers affect acquisitions. This lack of empirical evidence is due to the difficulty of observing "outcomes" of lawyer negotiations, with—for example—acquisition contracts usually not being publicly available.

Our paper uses unique proprietary data to close this gap. Using data on the negotiations and contract design in private merger transactions, we investigate whether lawyers with more legal expertise yield better negotiation outcomes for their own clients. The traditional view, and null hypothesis, is that negotiation outcomes are driven by deal characteristics but are unaffected by the relative legal expertise of the involved lawyers. We test this null hypothesis against the alternative view that lawyers affect M&A negotiations and contractual outcomes in a measurable way. In particular, lawyers with more legal expertise may distribute value away from the counterparties and

[1] For buyer or seller characteristics see Shleifer and Vishny (1989), Lang, Stulz, and Walkling (1991), Harford (1999), Bargeron et al. (2008), Masulis, Wang, and Xie (2007), Moeller (2005), or Stulz, Walkling, and Song (1990). For investment banks see Kale, Kini, and Ryan (2003), Rau (2000), Servaes and Zenner (2000), Bao and Edmans (2012), Golubov, Petmezas, and Travlos (2012), or Ertugul and Krishnan (2011).

towards their own clients (*competitive-advice hypothesis*). Lawyers may also affect the total value generated (*cooperative-advice hypothesis*).

We investigate these hypotheses using the detailed files of 151 acquisitions of privately held targets that were executed between 2005 and 2010.[2] The files have been made available by one of the largest law firms in The Netherlands, and include the full contracts that were signed between buyers and sellers. They further allow us to identify the individual lawyers that were advising both buyers and sellers. We create for each transaction an index that captures the expertise of the buyer lawyer and the seller lawyer, as well as an index for "relative lawyer expertise", i.e. of the buyer lawyer relative to the seller lawyer. We construct these indices for the two parties' lead lawyers, who are usually partners at their firms and oversee all legal aspects of M&A negotiations for their clients. The indices span different dimensions of legal expertise, covering aspects of both experience and education. Our sample contains 112 different lead lawyers and 20 of them work for the law firm that provided the data. Our sample contains many leading international law firms, including eight top 10 law firms according to a Merger Market ranking based on deal volume.

We start with an analysis of the effects of lawyers' expertise on contract design, typically one of the main duties of lawyers. A large legal literature discusses the important of getting the details of contract provisions right, "as big money can turn on how a particular clause in the acquisition agreement is drafted" (Miller (2008), p. 197). We focus on provisions that have been identified by legal literature as being crucial in negotiations, in particular, provisions that allocate risk between the buyer and seller. For a given price, the buyer prefers to allocate a maximum level of risk to the seller, while the seller prefers the opposite.[3] Those provisions speak to the competitive-advice hypothesis relative to the null hypothesis. We test whether there is a measurable effect of lawyer expertise on the representation of diverging interests.

One channel of risk allocation are representations and warranties, i.e., guarantee statements by the seller about the quality of the target.[4] Freund (1975, p.229) argues that "I'm willing to bet my briefcase that lawyers spend more time negotiating 'Representations and Warranties of the Seller' than any other single article in the typical acquisition agreement." Martinius (2005, p.36) states that

[2] Acquisitions of privately held targets constitute a large proportion of mergers and acquisitions. For example, 96% of the cross-border transactions in Erel, Liao, and Weisbach (2012) involve privately held targets. Betton, Eckbo, and Thorburn (2007) document for US takeovers that about 63% of targets are privately held.
[3] As risk allocation and transaction prices may be traded-off against each other, our tests control for the acquisition price. Our results are robust to controlling for the rank of the involved law firms, relative bargaining power, and risk-bearing capacity of buyers and sellers.
[4] We will refer to "representations and warranties" simply as "warranties" in this paper.

"representations and warranties given by the seller often cover more than 50% of the purchase agreement and are the primary means to protect the buyer." While warranties themselves are necessarily not used to allocate risk (but rather as a signaling tool to overcome asymmetric information), risk allocation is negotiated through three clauses attached to warranties, which affect their scope and enforceability. First, warranties may come with the statement "*so far as the seller is aware,*" which means that they are unenforceable unless the buyer can proof that the seller was aware of a warranty violation (Freund (1975)).[5] The buyer, therefore, prefers the inclusion of few knowledge qualifiers, whereas the seller prefers as many as possible. Our first measure is, thus, the percentage of warranties without knowledge qualifiers. As a refinement of this first measure, we also use the absence of a knowledge qualifier in one particular warranty where risk allocation (but not signaling) is particularly likely, namely, in the legal compliance warranty. This warranty states that the business of the target is conducted in compliance with all applicable laws. It is highly unlikely that a seller has full information when providing this warranty, and a knowledge qualifier for this warranty is therefore primarily used to allocate risk. A second clause is the materiality qualifier. The seller can add an overarching qualifier that states that any warranty needs to be violated in "*in a material respect.*" This clause also reduces the enforceability by the buyer (see Kling, Simon, and Goldman (1996)). Hence, the buyer prefers that warranty breaches do not need to be material, whereas the seller prefers the opposite. The legal literature has identified these two qualifiers as the key provisions in negotiations over warranties (e.g., Freund (1975), Martinius (2005), Miller (2008)).[6] A third important clause concerns indemnification. The buyer's risk exposure is larger if the seller has insufficient funds to indemnify the buyer as a result of a misrepresentation in the warranties. The buyer can be protected against this risk by requiring, in an indemnification clause, that parts of the target payment are put aside as collateral (e.g., in an escrow account). We measure what percentage of the purchase price is secured for the buyer as a source for indemnification.

We relate these measures to the relative experience of buyer versus seller lawyers. After controlling for the acquisition price, we find that more relative legal expertise on the buyer side is

[5] The difference between signalling (and overcoming information asymmetry) and risk allocation can be illustrated with the following example. Suppose the seller includes the following warranty: "There is no breach of the IP rights of the target by another party". If the seller is *uncertain* whether such a breach has happened, the warranty helps to overcome information asymmetry (information available to the seller), but it leaves the risk with the seller (i.e., the seller provides insurance for a situation she is uncertain about). Suppose now that, to the contrary, the seller adds a qualifier: "The seller has no knowledge of any breach or anticipated breach of the IP rights of the target by another party". The warranty now still helps to overcome information asymmetry, but it reallocates risk from the seller to the buyer (now the buyer provides insurance).

[6] Miller (2008, p. 218) states that "it makes a significant difference to the potential economics if there are materiality and knowledge exceptions." He further argues that "[next to knowledge qualifiers] the other major battle that is fought in the representation section is the extent to which the Target is permitted to make representations that are qualified by 'materiality'".

associated with more risks allocated to the seller, consistent with the *competitive-advice hypothesis*. Specifically, more buyer lawyer expertise is associated with more warranties without knowledge qualifiers, a higher probability that the legal compliance comes without a knowledge qualifier, and a higher probability that warranties breaches do not need to be material. Seemingly, seller lawyers with high expertise closely follow the negotiation advice for sellers in Miller (2008, p. 240): "Add materiality and knowledge qualifiers wherever possible," while expert lawyers on the buyer's side do the opposite. We also find that higher expertise on the seller lawyer side is negatively related to the presence of an identification clause.

Another important risk in acquisitions arises from adverse events between signing and closing dates. As a default, this risk lies with the buyer, who contractually agrees to purchase the target at a given price. However, contracts can shift this risk to the seller by including a so-called MAC clause, which allows the buyer to cancel the deal if the target suffers a material adverse change (MAC) before the closing date. While the buyer prefers the inclusion of such a clause, the seller favors not to carry this risk (see Denis and Macias (2012), Gilson and Schwartz (2005)). Consistent with the *competitive-advice hypothesis*, we find that more expertise of the buyer lawyer relative to the seller lawyer increases the probability that a MAC clause is added. These results are again obtained after controlling for the transaction price.

We then assess the impact of lawyer expertise on the bargaining process, which lawyers may influence in order to push negotiations in their clients' favor. We first assess which party is allowed to provide the first draft of the acquisition contract. This creates a first-mover advantage by setting an anchor or reference point for the upcoming negotiations (e.g., Molod (1994); see also Hart and Moore (2008)). As Freund (1975, p.26) writes "*in negotiating acquisitions, the axiom is: If you have an opportunity to draft the documents, do so; you will jump into the lead, and your opponent will never catch up completely*." We find that more legal expertise on the buyer side is associated with a higher probability that the buyer can come up with the first draft, and more expertise on the seller side with a higher probability that the seller delivers the first draft.

Next, we examine the duration of deal negotiations and closing times. The buyer benefits from short negotiations as this reduces agency problems at target management, saves transaction costs, and avoids that the period of exclusive negotiations expires.[7] The seller also benefits from accelerated negotiations because of lower transaction costs, but this comes at a cost as it reduces

[7] Transactions usually start with a letter of intent, which specifies an exclusivity period during which the seller is not allowed to negotiate with other bidders.

opportunities to look for alternative bidders. Similarly, the buyer prefers shorter times between signing and closing, as the sellers keeps control over the target until the closing date, which allows her to extract private benefits. Indeed, we find that more buyer legal expertise is associated with both shorter negotiation and closing times, and more seller expertise with longer times.

For completeness, we also analyze the impact of lawyer expertise on the prices paid for the targets. In all of our previously mentioned analyses, the acquisition price serves as a control variable. While lawyers are generally not the primary parties bargaining over prices, the control variable captures the trade-off between risk allocation and price. However, lawyers may also affect the price directly through their efforts during the due diligence and contract drafting process. For example, buyer lawyer expertise can cause price adjustments if lawyers spot target quality issues during the due diligence. Indeed, we find that more buyer expertise is associated with lower transaction prices. Importantly, these results are obtained after controlling for financial advisors and contract design.

The main difficulty in interpreting our estimates is the question of endogenous assignment. IF better lawyers predict better outcomes for their clients, does this reflect the causal impact of their expertise, or are better lawyers simply able to associate themselves with more promising deals? Our two-sided approach, capturing both buyer-lawyers' and seller-lawyers' expertise, ameliorates part of this concern. Our results indicate that, for example, a "medium degree" of risk shifting to the seller could reflect high lawyer-expertise on both sides or low lawyer-expertise on both sides. A "somewhat stronger" degree of risk-shifting can stem from the combination of high-expertise buyer-lawyers and medium-expertise seller-lawyers, or medium-expertise buyer-lawyers and low-expertise seller-lawyers. Nevertheless, the concern remains that lawyers are endogenously assigned to deals or clients, implying that relative lawyer expertise spuriously reflects unobserved transaction or target characteristics. This concern is particularly relevant for the legal expertise of the lawyers of the law firm that provided the data, as these lawyers advise a buyer or seller in each of the deals in the sample. We mitigate endogeneity concerns in three ways. First, we focus on deals where the relationship between a client and our law firm has been established prior to the current transaction. The idea behind this analysis is that the initial assignment of clients to law firms and lawyers may be affected by unobserved deal or target characteristics, but these past variables are unlikely to bias the estimates legal expertise in transactions over future targets.[8] Second, we exploit that several of the lawyers of our law firm advised on more than one sample contract, allowing us to estimate

[8] Coates et al. (2011) and Gilson, Mnookin, and Pashigian (1985) provide evidence lawyer-client relations are usually very long-lasting. It is argued that these relations arise because of uncertainty about lawyer quality. In the rare case that partners leave their law firms, they frequently take their clients with them.

lawyer fixed effects. Lawyer fixed effects alleviate the concern that lawyers attract or select specific deals by accounting for unobserved time-invariant lawyer characteristics. As our analysis estimates the effects of *relative* lawyer expertise, lawyer fixed effects allow us to identify the effect of relative legal expertise from variation in the expertise of the counterparty lawyers. Third, we show estimate our regressions with client fixed effects, which account for unobserved client characteristics that may affect the assignment of clients to lawyers.

To corroborate that our results are consistent with the *competitive-advice hypothesis* and do not reflect spurious correlations, we perform a set of placebo test by looking at negotiation outcomes where we expect relative expertise to be irrelevant. Specifically, we expect relative expertise to be unrelated to contract outcomes where incentives of the buyer and seller are aligned. Performing such falsification tests, we show that relative expertise is unrelated to the *number* of warranties and covenants, which serve important signaling and commitment functions. By facilitating deal completion, warranties and covenants are in the interest of both parties. Specifically, they help overcome information asymmetries, which could induce a market breakdown or a higher discount on the price. Similarly, relative expertise is unrelated to the presence of earnout mechanisms and purchase price adjustments, which both reduce information asymmetry about future target profitability (e.g., Datar, Frankel, and Wolfson (2001), Cain, Denis, and Denis (2011)). This indicates that relative expertise only comes into play for outcomes where objectives are conflicting. These findings support theories by Sen (2000) and Inderst and Müller (2004), who show that bargaining over less-adversarial clauses is unlikely. To further corroborate this idea, we also show that expertise is only used to affect knowledge qualifiers for warranty categories that are likely to allocate risk (e.g., warranties on intellectual property) rather than to overcome information asymmetry (e.g., warranties on corporate records).

Having shown that legal expertise helps to achieve better negotiation outcomes, we explore the frictions that may cause some buyers or seller to not obtain sufficiently high levels of legal advice. We show that an important variable related to the expertise of a client's legal advisor is the geographic proximity between the client and the lawyer. Specifically, legal expertise tends to be lower if clients are advised by lawyers that are geographically located in closer proximity ("house lawyer"). This finding suggests that clients may have a home bias towards using lawyers located nearby, which can lead to potentially inefficient client-lawyer assignment and detrimental negotiation outcomes. We further find that that the effect of geographic distance on legal expertise is reduced if sellers have high levels of deal experience. This suggests that the decision of such sellers to opt for local lawyers is not associated with inferior legal expertise.

Our analysis relates to papers that look at the effects of law firm characteristics on M&A outcomes. Coates (2012) studies acquisition contracts to assess how relative law firm expertise affects earnouts, price adjustments, and indemnification clauses. Krishnan and Masulis (2013) study how law firm rank affects completion rates and takeover premiums, and Krishnan and Laux (2007) relate law firm size to deal completion rates and acquirer returns. We further relate to Krishnan et al. (2012) who show that shareholder litigation affects M&A outcomes.

Section 2 presents the data. Section 3 describes the negotiation process and our measures of negotiation outcomes and expertise. Section 4 provides the results and Section 5 concludes.

2. Data

Our sample is built around the files of 151 acquisitions of privately held targets between 2005 and 2010. The files have been made available by one of the largest law firms in The Netherlands, which specializes in corporate law and mergers and acquisitions. The law firm acted as advisor of either buyers (86 deals) or sellers (65 deals). The files contain the original acquisition contracts, information on the involved lawyers, and details on the bargaining and pricing. If missing, we complete information on the involved lawyers with data from Merger Market, which contains information on financial and legal advisors in M&A transactions. To measure lawyer expertise, we collect data on each lawyer from the webpages of their law firms, internet searches, and Merger Market. We focus for each deal on the two lead lawyers that are advising the buyer and seller, respectively. These lawyers are usually partners at their law firms and identified in our files and in Merger Market as the lead lawyers on a transaction.

Across our sample, lead lawyers of 49 different law firms are involved in the negotiations.[12] Out of those law firms, 25 are headquartered in The Netherlands, which implies that in 74% (75%) of the deals the buyers (sellers) are advised by a Dutch law firm. Across all deals, 112 individual lead lawyers negotiate on behalf of one of the two deal sides, with the average lead lawyer advising on 2.3 sample deals.[13] The sample contains 20 lead lawyers from the law firm that provided the data.[14]

[12] A total of 30 (36) law firms advised the buyers (sellers), and 17 law firms occurred as advisors of both sellers and buyers.

[13] The buyers (sellers) were advised by 66 (70) different lead lawyers. 24 lead lawyers in the sample advised both sellers and buyers.

[14] The lead lawyers from our law firms do not focus on advising only buyers or seller; buyers (sellers) were advised by 16 (17) of the 20 different lead lawyers from our law firm. 17 lawyers advised on more than one deal and three lawyers on one deal. On average, each lead lawyers of our law firm advised on seven deals in

We complement these data with financial information on the buyers, sellers, and targets from Amadeus, national trade registers, or financial statements. All financial variables are based on the year preceding the closing of a transaction.

Table 1 Panel A contains summary statistics on the deals. Variable definitions are provided in Appendix A-1. The average transaction value in our sample is EUR 222m. Buyers and sellers are relatively equal in terms of size, with a median book value of EUR 1.4bn and EUR 2.0bn, respectively. Sellers and buyers also have similar levels of deal experience; both performed about twelve M&A transactions over the past five years. About half of all transactions are international and a quarter is executed as an auction. Only 8 deals in our sample use equity as acquisition currency. Appendix A-2 contains the sample's country and industry distribution. We also report the rank of the involved law firms and investment banks. As in Krishnan and Masulis (2013) and Beatty and Welch (1996), we categorize them based on whether they are ranked in the top 10 based on deal volume between 1995 and 2010. We further provide cross-tables of the buyer-seller types and locations.

To evaluate potential sample selection issues, Appendix A-3 compares various characteristics of the deals in our sample with those of other private acquisitions during the sample period. We include in the comparison deals that have at least one of the involved parties located in The Netherlands to capture deals that our law firm could have potentially advised on. The data is obtained from Merger Market.[15] The comparisons suggest that transactions in our sample are larger than those in Merger Market. Our sample naturally contains more targets, buyers, and sellers from The Netherlands. Our buyers and sellers have been advised by more and better law firms and banks. This suggests that our sample probably contains a relatively high level of legal expertise.

3. M&A Negotiations and Lawyer Expertise: Process and Measurement

3.1 M&A Negotiation Process

The negotiation process preceding a private acquisition is in principle free of form and can be different for every deal. However, there are some conventions of the steps typically taken in such negotiations and this section provides a short overview of them for one-on-one negotiations (Appendix A-4 describes these patterns also for controlled auctions).

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the sample. Naturally, this high number is an artifact of the data and does not reflect a bias in overall deal activity outside the sample.

[15] Statistics in Appendix A-3 use Merger Market data, which contain less information about deals than our data. Consequently, some of the reported sample means may deviate from the means provided in Table 1 or Appendix A-2.

Negotiations usually begin with one party communicating interest in a deal. If a buyer initiates a deal, this can be a simple statement of interest, whereas a seller typically approaches potential buyers with a few pages of target information (a "teaser"). From then until the signing, the seller faces a trade-off between providing information to attract or improve an offer, versus withholding sensitive details in case the deal is cancelled. Consequently, if there is mutual deal-interest, both parties first enter into a non-disclosure agreement (NDA), whereby they commit to keep information confidential. The preparation of an NDA is generally the moment where lawyers are called into the negotiations.

In spite of the NDA, the seller often does not yet provide open access to the target's books and premises. The parties first want to assess whether they are thinking along a similar target price range. To facilitate an initial offer from the buyer, the seller will ask her lawyer to provide additional information about the target in an information memorandum (IM). Based on the IM, the buyer makes an initial non-binding offer, which is a high-end estimate, i.e. a price that the buyer offers if "no skeletons appear in the closet." If this offer does not discourage the seller, the lawyers write down initial agreements in a letter of intent (LOI). Most of the LOI is non-binding and its main purpose is to provide a structure to the deal to avoid miscommunication and to set a timeline for contract negotiations. In addition, the LOI contains a binding exclusivity clause, which prohibits the seller from entering into negotiations with other bidders for a specific period of time. After the signing of the LOI, the buyer is granted access to the most relevant target data in a due diligence process (DD). As a due diligence can be time-consuming, lawyers usually proceed simultaneously with contract negotiations.

Contract negotiations start with a draft contract provided by the lawyer of one of the two parties. This first draft is a combination of a standard sample contract used by the law firm and deal specific details. Law firms generally have different sample contracts, depending on whether they represent a buyer or seller, and the first draft contract is usually biased towards the own party. The counter-party lawyer then prepares a mark-up on this document and indicates preferred changes. The lawyers extensively discuss these changes and send various mark-ups of the contract back and forth by email. This exchange of mark-ups, and discussions about them, can continue over months. If the due diligence is on-going during the contract negotiations, any arising concerns about the target quality will affect the negotiations (e.g., by demanding warranties). The target price is often not part of these contract negotiations and mostly not even mentioned in the draft contract until late in the negotiation phase. As such, there is no explicit interaction between the pricing and the contract

design. However, the price can be adjusted downward if issues appear that are not fully mitigated in the contract (e.g., through warranties or covenants).

If the transfer of control (closing) does not occur directly with the signing, the contract stipulates what conditions need to be met before the closing. If these conditions are satisfied, there is no renegotiation after the signing. However, if some conditions are violated, for example the MAC conditions, then the contract can be annulled and parties renegotiate.

3.2 Measuring Negotiation Outcomes

We test whether lawyers with more expertise negotiate outcomes that are more favorable to their clients. Our assumption is that lawyer expertise improves the bargaining position of the own party, such that more favorable outcomes can be negotiated. We revert to bargaining theory to guide our analysis and to predict for which negotiation outcomes we expect the strongest effects. Generally, negotiation outcomes can be separated into those that *create* value for both parties, and those that *distribute* value among them (e.g., Gilson (1984)). Rubinstein (1982) shows that relative bargaining power is crucial for surplus distribution if two trading parties negotiate over outcomes where incentives are opposite. To the contrary, Sen (2000) and Inderst and Müller (2004) show that relative bargaining power does not matter for provisions that create value for both parties, as incentives are more aligned over them. In light of these theories, we expect that relative expertise is most likely to direct negotiation outcomes over adversarial issues, which we measure along three dimensions: contract design, the bargaining process, and acquisition pricing.[16]

3.2.1 Contract Design

Acquisition contracts contain provisions that facilitate legal actions, mitigate information asymmetry or agency concerns, and allocate risk between buyers and sellers. Provisions facilitating legal actions address legal formalities or definitions and rarely require negotiations. Clauses that address information or agency concerns are usually instruments that *create* rather than *distribute* value and incentives are relatively aligned over such clauses (we will also show this for our data). To measure the impact of relative lawyer expertise, we therefore focus on provisions that allocate risks between buyers and sellers, and which are identified by legal literature as being subject to extensive negotiations (Gilson and Schwartz (2005), Miller (2008), Martinius (2005), Freund (1975)).

The first set of provisions relates to warranties, which are statements about target quality that sellers make with the commitment to repay parts of the purchase price if any of them are

[16] Appendix A-5 provides an overview of these outcomes and the associated buyer and seller objectives.

violated. Warranties can serve as a signaling device for target quality if sellers are better informed than buyers (Grossman (1981) and Spence (1977)). As such, to the extent that warranties relate to issues of which sellers are aware, the incentives of buyers and sellers are aligned as more warranties help to better reduce information asymmetry (Grossman (1981)). However, warranties can also cover issues that sellers are not entirely certain about (i.e., issues that even the seller has no information about); warranties then provide insurance to buyers.[17] Sellers can circumvent this insurance by adding a knowledge qualifier, which states that a certain warranty is only true "*so far as the seller is aware.*" A warranty qualified with such a statement cannot be enforced unless the buyer can prove that the seller was aware of the breach at the time of signing (e.g., Freund (1975)). As a result, warranties without knowledge qualifiers provide insurance to buyers by allocating risk to sellers, while warranties with them allocate risk to buyers (see Kling, Simon, and Goldman (1996)). Our first measure of risk allocation is the fraction of warranties that come without knowledge qualifiers *(%Warranties w/o Qualifier*).[18] For any given price, buyers want to include few qualifiers, while sellers have the opposite incentives. Table 1 Panel B shows that 86% of all warranties are written without a knowledge qualifier. Correlations of all contract design variables are in Appendix A-10.

To identify one specific warranty clause where risk allocation (but not signaling) can be identified most cleanly, we focus for our second measure on the presence of a knowledge qualifier in the legal compliance warranty. This warranty states that the business of the target is conducted in compliance with all applicable laws and it is therefore highly unlikely that a seller has full information when providing this warranty. A legal compliance warranty states that the business of the target is being conducted in compliance with all applicable laws. A knowledge qualifier for this warranty is therefore primarily used to allocate risk. To capture this concept, we create a variable, *Legal Compliance Warranty w/o Qualifier*, which equals one if a contract does not contain a legal compliance warranty that is qualified with a knowledge qualifier, and 0 otherwise. 83% of legal compliance warranties do not contain this qualifier.

Sellers can also reduce the enforceability of warranties by adding a materiality qualifier, which is an overarching clause stating that warranty violations can only be claimed if they are material. This provides sellers with a strong defense as buyers need to prove both that a warranty is violated *and* that the damage is material (see Kling, Simon, and Goldman (1996)). As such, sellers can

[17] That statement that there is no third party infringing on the target's intellectual property rights is an example of a warranty of which the seller may not be fully certain about.
[18] We define all contract-design variables such that higher (lower) values reflect more risk being allocated to sellers (buyers).

limit their risk exposure by adding a materiality qualifier. Our third measure of risk allocation is a dummy variable, which takes the value one if warranty breaches do not need to be material, and zero if they need to be (*Warranty Not Material*). About 80% of contracts specify that warranty breaches do not need to be material (see Table 1 Panel B).

A fourth warranty-related provision is the availability of money so that, in case of a warranty breach, the buyer can be indemnified. On average across our contracts, buyers can file a damage claim until up to one-and-a-half years after the closing date. If sellers have insufficient funds to pay for these damages, warranties are worthless. To prevent this scenario, parts of the purchase price can be collateralized by placing it in an escrow account, by a cash reserve requirement, or by a bank guarantee. Such secured funds are valuable for buyers as they increase the value of warranties, while they are costly for sellers. Our third measure of contract design is the percentage of transaction value which is collateralized *(%Payment Secured*). Funds are secured in 47 deals, with the average collateral being equal to 16% of the transaction value. This corresponds to an unconditional average of 5% secured funds across the sample (Table 1 Panel B).

Risk can also occur between the signing and closing date. If a material event substantially reduces target value, buyers may want to cancel a deal. However, having signed a contract and fixed a price, buyers are required to complete the deal and bear this risk. Contracts can shift this risk back to sellers through inclusion of a MAC clause, which stipulates that buyers can refuse deal completion if the target suffers a material adverse change. As such, buyers prefer the inclusion of an MAC clause, while sellers have opposite incentives. Our measure is a dummy variable, which takes the value one if the contract contains a MAC clause. This occurs in 34% of our sample (Table 1 Panel B), compared with 99% of transactions in the case of public takeovers (see Denis and Macias (2012)).

3.2.2 Bargaining Process

While the bargaining process is not in itself a negotiation outcome, it has important implications for contract design and pricing. As such, lawyers have incentives to direct the process in a way that is favorable to their own clients. We look at three aspects of the bargaining process.

First, we identify which law firm provided the first draft of the acquisition contract. Both parties prefer to deliver the first draft as it provides them with a first-mover advantage (e.g., Freund (1975), Molod (1994)).[19] We are able to identify this information based on the layouts of contracts,

[19] Freund (1975, p.26) states that "in negotiating acquisitions, the axiom is: If you have an opportunity to draft the documents, do so; you will jump into the lead, and your opponent will never catch up completely."

which contain the business labels of the law firms that drafted the first version. Table 1 Panel B shows that the first draft contract comes in 44% of the deals from the buyer law firm.

Second, we measure the time spent on negotiations, defined as the days between the start of negotiations and the signing of the contract. We define the start of negotiations as the date at which our law firm opened a file on a transaction. Buyers generally prefer shorter negotiations to minimize transactions costs, reduce moral hazard at the target, and avoid that the period of exclusive negotiations expires. Sellers, however, have mixed incentives—they prefer accelerated negotiations to also save on transaction costs, but they can benefit from long negotiations as the expiration of the exclusivity period allows them to obtain competing offers and negotiate a higher price. Negotiations take, on average, 170 days in our sample (Table 1 Panel B).

Third, we measure the closing time, which is the time between the signing of a contract and the transfer of the target. Closing times are sometimes necessary to apply for regulatory approvals. Whereas the length of this period is largely affected by the number of required approvals, lawyers may influence it by filing documents more quickly or lobbying for fast responses. Buyers usually prefer shorter closing times as—with the transaction price already determined—sellers remain in control of the target before the closing and can exploit this by acting opportunistically. Incentives of sellers are mixed as shorter closings mean fewer opportunities for private benefits, but also earlier closing payments (this is important if they are financially constrained; this seems not the case for our sellers). Our data indicate a considerable time period—about 46 days—between the signing and closing, making opportunistic seller actions a realistic concern for buyers.

3.2.3 Acquisition Pricing

Whereas target prices are understandably an important negotiation outcome, it is less clear how lawyer expertise influences them. As described above, the price in one-on-one transactions is usually set prior to contract negotiations. Lawyers can affect this price in different ways. First, the initial price is normally only an upper bound, which is subject to issues that may arise during the due diligence or negotiation process. Buyer lawyers with more expertise may be better able to identify any “skeletons” during the due diligence, demanding price reductions as a result. Second, if lawyer expertise affects negotiation times and this again affects prices, then buyer lawyers can indirectly reduce (or prevent increases to) the price by keeping negotiations short.

We measure the acquisition premium as the price paid for the target divided by its book value. Buyers, *ceteris paribus*, prefer to pay a low price for the target, while sellers want a high price. The average acquisition premium in our sample equals 250%.[20]

3.3 Measuring Relative Lawyer Expertise

We create an index, *Relative Lawyer Expertise*, to proxy for the expertise of the buyer lead lawyer relative to that of the seller lead lawyer. This index is constructed based on six components: (i) a lawyer's number of years as partner; (ii) her deal experience; (iii) whether she is an M&A specialist; (iv) whether she listed as an M&A expert in the Chambers Expert Lawyer ranking; (v) the ranking of her law school; and (vi) whether she graduated from a US law school.

The exact construction of each of the six index component depends on the distribution of the underlying profile data, which can be continuous or binary. If the underlying lawyer data is continuous (e.g., years as partner), we divide the expertise value of the buyer lawyer by that of the seller lawyer, such that a higher ratio indicates higher relative buyer lawyer expertise.[21] A similar methodology is used in Coates (2012) and Kale, Kini, and Ryan (2003). We standardize these variables such that they range between zero and one. If the underlying profile data is binary (e.g., US law school education), we create the relative expertise variables such that they can take three values: 0 if the seller lawyer has more expertise; 0.5 if both have the same expertise; and 1 if the buyer lawyer has more expertise. Details are provided in Appendix A-1.

We create *Relative Lawyer Expertise* as the average of our six proxies for legal expertise. The indexes range between zero and one as the index component have been standardized to lie in the same range. Table 2 Panel A contains summary statistics for the index as well as its six components.[22] Table 2 Panel B indicates that the index components are positively, but far from perfectly correlated; they seem to capture different aspects of expertise. Appendix A-6 provides an overview of the legal expertise of the lead lawyers representing the buyer and seller, respectively. For some of our tests we will also use indexes that capture the legal expertise of the buyer and seller lawyer separately (rather than the resulting ratio). Both of these indexes, *Buyer Lawyer Expertise*

[20] This compares with a range of 131% to 146% as documented for public takeovers (e.g., Betton, Eckbo, and Thorburn (2009), Moeller (2005)). Masulis and Nahata (2011) report private takeovers mean (median) premiums of 1073% (469%), but the targets in their analysis are much smaller.

[21] For the university rankings, we use inverse values of the underlying university rank.

[22] Sellers did not hire an external law firm and relied on internal in-house lawyers in 11% of the transactions. We assume that this reflects low legal expertise and give the relative expertise variables the value 1 for these observations (i.e., low relative seller expertise). Similarly, if the buyer has not requested any legal advice (5% of deals), observations are given the value 0 (i.e., low relative buyer expertise). This approach is similar to Yermack (1992) and Matsunaga, Shevling, and Shores (1992).

and *Seller Lawyer Expertise*, consist of the same six components and they are also standardized to range between zero and one. Consistent between both indexes, higher values of *Seller Lawyer Expertise* (*Buyer Lawyer Expertise*), indicate more seller (buyer) legal expertise.

4. Empirical Results

4.1 Negotiation Outcomes and Relative Lawyer Expertise

We next turn to the question whether more relative lawyer expertise is associated with more favorable negotiation outcomes, or whether relative expertise does not drive negotiations in one direction or another. To this end, we regress in Columns 1 to 5 of Table 3 our proxies for contract design on the index of relative lawyer expertise. Recall that higher (lower) index values indicate more legal expertise on the buyer (seller) side. The regressions in Column 5 that explain the presence of a MAC clause only contain deals where closing dates and signing dates are not the same as MAC clauses are otherwise not relevant. Appendix A-7 shows regressions separately for each of the six index components.

The regressions control for different potentially important determinants of contract design. We include deal and target characteristics and proxies for client bargaining power.[23] When explaining contract design and the bargaining process, we further control for the acquisition price, as contract provisions and prices are likely to be interrelated. We control for the number of warranties in all regressions with design measures related to warranties.

As higher values of any contract design measure imply that more risk is allocated to sellers, the *competitive-advice hypothesis* implies a positive relation between relative lawyer expertise and contract design. Supporting this view, we find in Table 3 that more buyer lawyer experience is associated with more warranties without a knowledge qualifier, a higher probability that the legal compliance warranty does not contain a knowledge qualifier, and a higher probability that a warranty breach does not need to be material. In terms of economic significance, an increase in the relative expertise index from the 25th (0.24; low buyer expertise) to the 75th percentile (0.53; high buyer expertise) is associated with 4% more *%Warranties w/o Qualifier*, which equals a third of the variable's standard deviation (12%). We further find that more legal experience is associated with a higher likelihood that a MAC clause is included.

[23] Appendix A-8 shows that results are robust to adding additional proxies for law firm rank, bargaining power, and risk bearing capacity.

Columns 6 to 8 in Table 3 reports regressions that relate relative legal expertise with the bargaining process. We find that more legal experience on the buyer side is associated with a higher probability that the buyer can provide the first draft. Similarly, lawyer education also seems strongly related to the probability of providing the first contract draft. In terms of the duration of the deal process, more experience is associated with both shorter negotiation and closing times. Moving from the 25th to the 75th percentile of the Experience Index reduces negotiation times by 42 days and closing times by 23 days. In unreported results, we find that our results on closing times are robust to only looking at those deals that do not contain a MAC clause. These are the transactions where buyers are most interested in fast closings.

The results in Column 9 of Table 3 suggest that more legal experience is associated with more favorable prices. Specifically, if the buyer lawyer has more experience, this is associated with a lower premium paid by the buyer. This suggests that experienced lawyers affect pricing in M&A deals, even though price indications are generally being set prior to contract negotiations. Appendix A-9 shows that these results are robust to controlling for the rank of the involved investment bank. The results are further robust to controlling for our proxies of contract design.

We next try to understand whether our results in Table 3 are driven primarily by buyer or seller lawyer expertise. To do this, we report in Table 4 regressions that are similar to those in Table 3 but now perform a horse race between buyer and seller lawyer expertise by directly including those two indexes rather than only their ratio. As expected, one can see that the coefficients on *Seller Lawyer Expertise* and *Buyer Lawyer Expertise* generally have the opposite sign, reflecting the contrasting economic interest of sellers and buyers. For example, more buyer expertise is associated with a higher fraction of warranties that come without knowledge qualifiers, while more seller expertise has exactly the opposite effect. While both variables roughly equally contribute to the previously established effects for *%Warranties w/o Qualifier, First Draft By Buyer*, *Negotiation Time,* and *Closing Time*, we find that sellers use legal expertise especially to include a materiality qualifier for warranties, reduce the probability of a MAC clause, and negotiate a higher acquisition premium. Buyers use legal expertise in particular to ensure that the legal compliance warranty comes without a knowledge qualifier. We further find that more seller lawyer expertise is associated with less money secured against warranty indemnifications, an effect we could not detect in Table 3.

Overall, our results are consistent with the *competitive-advice hypothesis* as higher relative lawyer expertise is reflected in more favorable negotiation outcomes across various dimensions. In terms of expertise drivers, it seems that both experience and education are relevant, but experience is generally more influential for the bargaining process and acquisition pricing.

4.2 Endogenous Assignments of Lawyers

Our evidence suggests that negotiation outcomes are more favorable for buyers if the expertise of buyer lawyers exceeds that of seller lawyers. A concern to our analysis is that this relation is spurious rather than causal due to endogenous assignments (matching) of lawyers to deals.[24] Endogenous lawyer assignments is of particular concern for the lawyers of the law firm that provided our data, as these lawyers drive a large part of the variation of the relative lawyer expertise index as they are advisors of sellers or buyers in each of the transactions in the sample. Nevertheless, we are able to mitigate concerns over endogenous lawyer assignment in three ways.

First, we look at the subsample of deals where concerns over endogenous lawyer assignment are less severe as a client-lawyer relations have been established prior to the deal. [25] Specifically, we estimate in Table 5 Panel A regressions for only those 99 transactions where, for the law firm that provided the data, a client-law firm relation has been established prior to the current transaction. We evaluate whether such prior client-law firm relations have been established based on deal data in Merger Market. The idea behind this analysis is that the initial assignment of clients to law firms and lawyers may be affected by unobserved deal or target characteristics, but these past variables are unlikely to bias the estimates legal expertise in transactions over future targets.

Second, we exploit that 17 of the 20 lawyers of our law firm advised on more than one transaction in the sample, allowing us to estimate lawyer fixed effects. Lawyer fixed effects alleviate the concern that lawyers attract or select specific deals by accounting for unobserved time-invariant lawyer characteristics. As our analysis estimates the effects of *relative* lawyer expertise, lawyer fixed effects identify the effect of relative legal expertise from variation in the expertise of the counterparty lawyers. The corresponding regressions are reported in Table 5 Panel B.

Third, we show estimate our regressions with client fixed effects, which account for unobserved client characteristics that may affect the assignment of clients to lawyers. We account for client fixed effects by including dummy variables for all clients that are involved in at least three transactions in the sample (we otherwise cannot identify the regression coefficients due to too many

[24] Lawyer assignment could be based on unobserved deal characteristics (e.g., deal complexity) or the bargaining power of clients, implying that these variables rather than lawyer expertise are driving the observed relations.

[25] Coates et al. (2011) and Gilson, Mnookin, and Pashigian (1985) provide evidence lawyer-client relations are usually very long-lasting. It is argued that these relations arise because of uncertainty about lawyer quality. In the rare case that partners leave their law firms, they frequently take their clients with them.

dummy variables). A client can be in the sample either as buyer, seller, or both. The corresponding regressions are reported in Table 5 Panel C.

Each column in Table 5 contains a regression with a different dependent variable (listed horizontally). The regressions use the same control variables as those in Table 3 (not reported). The regressions show across the three panels that our results are largely robust to these refinements, though we observe that the results are generally weaker when we use lawyer or client fixed effects.

4.3 Relative Lawyer Expertise: Placebo Tests

Bargaining theory suggests that bargaining power should not affect contract terms that create value for both parties by facilitating deal completion through reducing information asymmetry or agency problems (e.g., Sen (2000) and Inderst and Müller (2004)). This prediction allows us to perform a set of placebo tests to corroborate our previous results and to mitigate concerns about spurious correlation between relative lawyer expertise and negotiation outcomes.

To test whether relative expertise is indeed unrelated to value-creating contract outcomes, Table 6 contains regressions for three types of contract provisions that increase the joint surplus of both parties (e.g., Gilson (1984)). These provisions are (i) the number of warranties; (ii) the number of covenants; (iii) whether an earnout-payment is included; and (iv) whether a purchase price adjustment is included. We look at warranties as they reduce information asymmetry by signaling target quality to buyers (e.g., Grossman (1981), Spence (1977)). Thereby, they not only protect buyers against missing information that is known by the sellers, but also increase the probability that the target is sold to begin with by overcoming information asymmetry. Warranties hence increase the joint surplus of both parties by avoiding a market breakdown, making them an area of negotiations where incentives of buyers and sellers are relatively aligned. Similar arguments can be applied to covenants. Covenants are in the interest of both parties as they are commitment devices that mitigate opportunistic behavior by sellers between the signing and closing dates. The inclusion of covenants also facilitates deal completion and is beneficial for both parties. Finally, earnout mechanisms and purchase price adjustments facilitate deal completion by reducing information asymmetry (e.g., Datar, Frankel, and Wolfson (2001), Cain, Denis, and Denis (2011)). Earnouts stipulate that part of the purchase price will be contingent on target performance after the closing date, thereby reducing uncertainty about future target profitability. Purchase price adjustments are adjustments to the purchase price based on book values of the target on the closing date. These adjustments are included if signing and closing dates differ and they adjust the purchase price upwards or downwards retroactively based on changes in financial accounting performance after

the signing date. They thereby help to overcome information asymmetry about financial variables between signing and closing.

The corresponding results are reported in Columns 1 to 4 of Table 6. Note that the regressions in Column 2 (covenants) and 4 (purchase price adjustments) only contain deals where closing dates and signing dates are not the same as both clauses are otherwise not relevant. The regressions show that our proxies for relative lawyer experience and education are unrelated to these contract outcomes across both relative expertise indexes. This corroborates that expertise is primarily used to bargain for outcomes that are favorable to the respective own clients, rather than to shape provisions that maximize joint surplus.

To further investigate the difference between contract provisions that mainly allocate risk and those that mainly overcome information asymmetry, the remaining two columns of Table 6 contrast the effects of relative lawyer expertise for two types of warranty categories. We separate warranties into those where it is ex ante likely that the seller has sufficient information to be certain that a warranty breach is unlikely, and those where it is ex ante unlikely that the seller has sufficient information to exclude warranty breach. We then calculate for each of these two categories of warranties the percentage that comes without knowledge qualifiers. As explain earlier, we expect that knowledge qualifiers allocate risk for warranties in the first category, but not for those in the second one.

The difference can be illustrated with the following example. Suppose the seller includes the following intellectual property warranty: “There is no breach of the IP rights of the target by another party”. If the seller is uncertain whether such a breach has happened, the warranty helps to overcome information asymmetry (information available to the seller), but it leaves the risk with the seller (i.e., the seller provides insurance for a situation she is uncertain about). Suppose now that, to the contrary, the seller adds a qualifier: “The seller has no knowledge of any breach or anticipated breach of the IP rights of the target by another party”. The warranty now still helps to overcome information asymmetry, but it reallocates risk from the seller to the buyer (now the buyer provides insurance). This can be contrasted with a warranty that states the seller has provided to the buyer all corporate records on the organization of target, list of subsidiaries, bylaws, legal existence of target, minutes of past board meetings, capital, authorized decision makers (corporate record warranty). Here it is likely that the seller is certain about the statement that she makes so that a knowledge qualifier does not allocate risk.

Building on this idea, we create the following two variables. *%Risk Warranties w/o Qualifier* measures the percentage of all warranties without a knowledge qualifier on the following five warranty topics (i) legal (these warranties cover the following themes legal compliance, threatened or actual litigation, environmental compliance, etc.); (ii) contracts (contracts, enforceability of contracts, contracts with suppliers and buyers, guarantees, etc.); (iii) intellectual property (IP, patents, licenses, etc.) (iv) assets (legal ownership of assets, quality of target assets, etc.); and (v) business information. To the contrary, *%Info Warranties w/o Qualifier* is the percentage of all warranties with a knowledge qualifier on the following four warranty topics: (i) corporate records (these warranties cover the following themes: organization of target, list of subsidiaries, bylaws, legal existence of target, minutes of past board meetings, capital, authorized decision makers, etc.); (ii) financial accounts (financial accounts, internal financial statements, changes since the accounts date, taxes, etc.); (iii) employees (employee pay, resumes of target management, agreements with unions, strikes, pensions, employee benefits, etc.); (iv) insurance matters (insurance contracts, insurance coverage, indemnification agreements, etc.). We assume that, ex ante, the first set of provisions is more likely to allocate risk, while the second is more likely to reduce information asymmetry. The regressions in Table 6 show that relative lawyer expertise is unrelated to *%Info Warranties w/o Qualifier*, but highly statistically significantly related to *%Risk Warranties w/o Qualifier.*

4.4 Lawyer Expertise and Home Bias

We have shown that legal expertise helps to achieve better negotiation outcomes. This naturally raises the questions why some clients (buyers or sellers) do not obtain the right level of legal advice to competitively negotiate with the counterparty. To understand the frictions that are behind this potentially inefficient lawyer assignment, we test whether a geographic bias exists that causes clients to use the services of lawyers located in close proximity ("house lawyers"). To this end, we collect data on the distance between a client and her law firm and test whether lawyers with less expertise are usually located in closer proximity to their clients, which would be consistent with a geographic law firm bias.

Table 7 contains the corresponding results. We now regress the two indexes for buyer as well as seller lawyer expertise on the log of the distance between a client and her law firm. The regression estimates in Column 1 and 4 show that a shorter distance between a client and her law firm is associated with significantly lower legal expertise, both for buyers and for sellers. This finding suggests that clients that chose a lawyer that is located nearby ("house lawyers") may not obtain sufficiently high levels of legal expertise to achieve beneficial negotiation outcomes in M&A deals.

Clients that choose to obtain advice from lawyers that are more distance tend to bring more legal expertise to the negotiation table, leading to better negotiation outcomes.

To address the concern that our results are driven by deals where buyers and sellers are located in The Netherlands (where geographic distance is less likely to be relevant due to the small size of the country), the regressions in Column 2 and 5 exclude such Dutch deals. The estimates show that our results for seller lawyer expertise do not change, while those for lawyer expertise get weaker; this may be the caused by less statistical power due to the reduced sample size. Finally, the regressions in Columns 3 and 6 test whether this effect of geographic proximity on legal expertise is less prevalent among clients that have more deal experience. To tests this, we create for both buyers and sellers a dummy variable that equals one if the number of M&A deals that a client has performed in the five years prior to a transaction is above the median, and zero otherwise. The regressions show for sellers that the effect of geographic distance on legal expertise is reduced to zero if sellers have high levels of deal experience. This suggests that the decision of such sellers to opt for local lawyers is not associated with inferior legal expertise. We cannot find the same effect for buyers.

5. Conclusions

We study M&A transactions to test whether lawyers with more legal expertise yield better negotiation outcomes for their own clients along three important dimensions: contract design, the bargaining process, and acquisition pricing. We find that more lawyer expertise is associated with more beneficial negotiation outcomes. Buyer lawyers with more legal expertise than seller lawyers negotiate contracts that have fewer warranty qualifiers, are more likely to require that any warranty breach can be claimed, and that have a higher propensity to include a MAC clause. With respect to the bargaining process, more legal expertise on the buyer side is further associated with shorter negotiation and closing times, and a higher probability that the buyer can provide the first contract draft. Lastly, legal expertise is related to more favorable acquisition pricing even after controlling for contract design and investment bank expertise.

A set of placebo tests that show that lawyer expertise is less important for provisions that increase the joint surplus of both parties by facilitating deal completion and reducing transaction costs. Further, our findings do not seem to be driven by an endogenous allocation of lawyers to deal or clients, as indicated by instrumental-variables regressions or estimations using lawyer fixed effects.

Our results are consistent with the *competitive-advice hypothesis*, which holds that lawyers with more legal expertise are better able to negotiate in favor of the their own clients.

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Table 1
Transaction Characteristics and Negotiation Outcomes: Summary Statistics

Panel A provides summary statistics of transaction characteristics and Panel B summary statistics of negotiation outcomes. The sample covers 151 M&A transactions conducted in the period between 2005 and 2010. Not all data is available for all transactions. Detailed variable definitions are provided in Appendix A-1.

Panel A: Target, Buyer, Seller, and Deal Characteristics

	Mean	Median	10th	90th	Std. Dev.	Obs.
Target						
Transaction Value (mEUR)	222	34	2	371	795	151
Target Book Value (mEUR)	318	45	2	538	990	146
Target Market Value (mEUR)	434	80	6	864	1,290	146
Target Leverage	59%	60%	21%	97%	30%	146
Target EBIT/Assets	14%	14%	1%	32%	15%	151
Asset Deal	9%					151
Buyer						
Buyer Book Value (mEUR)	40,000	1,410	12	45,900	139,000	150
Buyer Deal Experience	12	5	1	33	16	147
Buyer Private Equity	22%					151
Seller						
Seller Book Value (mEUR)	90,800	2,080	2	124,000	316,000	147
Seller Deal Experience	13	5	1	36	16	151
Seller Private Equity	15%					151
Seller Family	18%					151
Main Seller Percent	88%	100%	49%	100%	21%	151
Deal						
Cross-Country Deal	44%					151
Approvals Required (Number)	1	0	0	2	2	151
Controlled Auction	23%					151
Distance Buyer-Buyer Law Firm (km)	755	54	3	1210	1949	151
Distance Seller-Seller Law Firm (km)	430	52	0	446	1701	151

Panel B: Negotiation Outcomes

	Mean	Median	10th	90th	Std. Dev.	Obs.
Contract Design						
Warranties	97.5	99.5	26.5	152.0	49.2	150
%Warranties w/o Qualifier	86%	89%	76%	99%	12%	150
%Info Warranties w/o Qualifier	75%	80%	51%	97%	20%	149
%Risk Warranties w/o Qualifier	94%	96%	88%	100%	10%	150
Legal Compliance Warranty w/o Qualifier	83%					150
Warranties Not Material	81%					150
%Payment Secured	5%	0%	0%	21%	9%	149
Covenants	13.7	14.0	0.0	31.0	13.0	151
MAC Clause	34%					151
Bargaining Process						
First Draft By Buyer	44%					151
Negotiation Time (days)	170	141	47	334	134	147
Closing Time (days)	46	24	0	123	66	151
Pricing						
Acquisition Premium	2.4	1.6	1.0	5.1	2.3	146
Earnout	18%					151
Purchase Price Adjustment	52%					151

Table 2
Relative Lawyer Expertise: Summary Statistics

This tables reports summary statics of an index that measure relative lawyer expertise, *Relative Lawyer Expertise*, as well as the components that are used to create the index. The index and its components have been standardized to range between 0 and 1. Higher values indicate more legal expertise on the side of the buyer lawyer. Relative Lawyer Expertise is the average of six index components: *Years as Partner; Deal Experience; M&A Specialist; M&A Expert Listing*; *Law School Ranking; US Education.* Next to means and medians, we report for what percentage of the sample: (i) the seller lawyer has more expertise than the buyer lawyer; (ii) both have the same expertise; and (iii) the buyer lawyer has more expertise than the seller lawyer. *Years as Partner*, *Deal Experience*, and *Law School Ranking* are based on continuous variables and defined as the expertise value of the buyer lawyer divided by the expertise value of the seller lawyer. (For *Law School Ranking*, the inverse is used, such that higher values reflect higher university quality). *M&A Specialist*, *M&A Expert Listing*, and *US Education* are based on dummy variables and can take three values: 0 if the seller lawyer has more expertise; 0.5 if both have the same expertise; and 1 if the buyer lawyer has more expertise. Panel B reports rank correlations of the relative expertise index and its components. * indicates significance at the 5% level.

Panel A: Relative Lawyer Expertise

	Summary Statistics		**Buyer Layer Expertise Relative to Seller Lawyer Expertise**			
	Mean	**Median**	**Buyer < Seller**	**Buyer = Seller**	**Buyer > Seller**	**Obs.**
Index						
Relative Lawyer Expertise	0.42	0.37	72%	0%	28%	107
Index Components						
Years as Partner	0.35	0.22	74%	2%	25%	117
Deal Experience	0.25	0.08	80%	0%	20%	127
M&A Specialist	0.55	0.50	9%	71%	20%	132
M&A Expert Listing	0.59	0.50	17%	48%	35%	151
Law School Ranking	0.28	0.09	76%	0%	24%	127
US Education	0.50	0.50	19%	62%	19%	129

Panel B: Spearman Rank Correlations

	Relative Lawyer Expertise	Years as Partner	Deal Experience	M&A Specialist	M&A Listing	Law School Ranking	US Education
Relative Lawyer Expertise	1						
Years as Partner	0.6928*	1					
Deal Experience	0.6505*	0.4908*	1				
M&A Specialist	0.7225*	0.6216*	0.6667*	1			
M&A Listing	0.6388*	0.2551*	0.6170*	0.4924*	1		
Law School Ranking	0.8179*	0.5805*	0.4551*	0.5361*	0.2798*	1	
US Education	0.6657*	0.3224*	0.0889	0.2540*	0.2130*	0.6801*	1

Table 3
Negotiation Outcomes and Relative Lawyer Expertise

This table reports OLS and logit regressions to explain the relation between relative lawyer experience and different negotiation outcomes in M&A transactions. We proxy for relative lawyer expertise using the variable *Relative Lawyer Expertise*. This index ranges between 0 and 1, where higher values indicate more legal expertise on the buyer's side. The sample consists of 151 acquisitions of private targets between 2005 and 2010. Each column contains a regression with a different dependent variable (listed horizontally). The regressions in Column 5 only contain deals where closing dates and signing dates are not the same. Detailed variable definitions are provided in Appendix A-1. We report in parentheses *t*-statistics, calculated using robust standard errors. The regressions have less than 151 observations because of missing data for some variables. *** indicates significance at 1%, ** at 5%, and * at 10%.

	Contract Design					**Bargaining Process**			**Pricing**
Dependent Variable:	%Warranties w/o Qualifier	Legal Compliance Warranty w/o Qualifier	Warranties Not Material	%Payment Secured	MAC Clause	First Draft By Buyer	Negotiation Time	Closing Time	Acquisition Premium
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Relative Lawyer Expertise	0.16***	3.28**	4.66***	0.08	5.06***	7.18***	-147.37***	-82.18***	-2.04**
	(3.07)	(2.22)	(2.83)	(1.56)	(2.60)	(2.93)	(-2.73)	(-3.31)	(-2.60)
Acquisition Premium	0.01*	0.03	-0.12	-0.00	-0.32	-0.00	-18.31***	-1.22	
	(1.68)	(0.13)	(-0.54)	(-0.72)	(-1.36)	(-0.02)	(-2.86)	(-0.34)	
Warranties	0.00	-0.01	0.01	0.00**					
	(0.14)	(-1.37)	(1.12)	(2.57)					
Cross-Country Deal	-0.04	-0.95	-0.62	-0.02	-0.88	-2.92**	60.86*	0.42	0.60*
	(-1.58)	(-1.44)	(-0.85)	(-1.11)	(-1.05)	(-2.57)	(1.85)	(0.04)	(1.69)
Asset Deal	0.02	-1.08	-0.69	-0.00	-1.60	-2.38*	17.19	32.16	0.63
	(0.54)	(-0.90)	(-0.70)	(-0.08)	(-1.17)	(-1.76)	(0.42)	(1.28)	(0.94)
Target Leverage	-0.02	0.95	1.13	0.04	1.14	-0.83	-98.32*	-0.98	-0.05
	(-0.39)	(0.92)	(1.19)	(1.56)	(1.01)	(-0.73)	(-1.94)	(-0.05)	(-0.08)
Target EBIT/Assets	-0.03	-3.12	1.13	0.02	-2.32	-5.70	49.32	-39.67	1.54*
	(-0.41)	(-1.53)	(0.37)	(0.51)	(-0.75)	(-1.03)	(0.55)	(-1.26)	(1.76)
Relative Size	0.00	0.07	0.19	0.00	0.01	0.16	-4.36	4.80*	0.20**
	(0.14)	(0.50)	(1.04)	(0.05)	(0.08)	(1.16)	(-0.81)	(1.78)	(2.29)
Approvals Required					-0.07	-1.36***	0.01	12.73***	0.10*
					(-0.51)	(-3.67)	(0.00)	(3.06)	(1.73)
Log(Target Book Value)									-0.47***
									(-5.34)
Constant	0.83***	0.25	-2.04	-0.03	-2.37	0.59	318.65***	26.05	9.53***
	(16.72)	(0.19)	(-1.11)	(-0.93)	(-1.46)	(0.39)	(4.80)	(1.33)	(5.31)
Year Fixed Effects	YES	YES	YES	YES	YES	YES	YES	YES	YES
Obs.	100	93	100	70	71	100	96	100	100
Adjusted/Pseudo R^2	0.092	0.162	0.238	0.145	0.222	0.467	0.188	0.178	0.363

Table 4
Negotiation Outcomes: Separate Effects of Seller and Buyer Lawyer Expertise

This table reports OLS and logit regressions to explain the relation between seller and buyer lawyer experience and different negotiation outcomes in M&A transactions. We proxy for seller (buyer) lawyer expertise using the variable *Seller Lawyer Expertise (Buyer Lawyer Expertise)*, which is an index that ranges between 0 and 1, where higher values indicate more seller (buyer) legal expertise. The sample consists of 151 acquisitions of private targets between 2005 and 2010. Each column contains a regression with a different dependent variable (listed horizontally). The regressions in Column 5 only contain deals where closing dates and signing dates are not the same. Detailed variable definitions are provided in Appendix A-1. We report in parentheses *t*-statistics, calculated using robust standard errors. *** indicates significance at 1%, ** at 5%, and * at 10%.

	Contract Design					**Bargaining Process**			**Pricing**
Dependent Variable:	%Warranties w/o Qualifier	Legal Compliance Warranty w/o Qualifier	Warranties Not Material	%Payment Secured	MAC Clause	First Draft By Buyer	Negotiation Time	Closing Time	Acquisition Premium
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Seller Lawyer Expertise	-0.14***	-0.97	-3.10**	-0.11**	-4.47**	-3.46**	102.24*	47.53**	2.23***
	(-3.11)	(-0.83)	(-2.35)	(-2.51)	(-2.45)	(-2.27)	(1.89)	(2.48)	(3.14)
Buyer Lawyer Expertise	0.13**	2.82*	2.04	-0.02	1.84	4.01***	-135.39**	-41.65	-0.08
	(2.12)	(1.95)	(1.62)	(-0.47)	(1.20)	(2.83)	(-2.23)	(-1.08)	(-0.13)
Acquisition Premium	0.01*	-0.02	-0.03	-0.01	-0.38	-0.04	-21.67***	-0.36	
	(1.87)	(-0.08)	(-0.16)	(-1.19)	(-1.63)	(-0.25)	(-2.94)	(-0.10)	
Warranties	-0.00	-0.01	0.01	0.00**					
	(-0.22)	(-1.06)	(1.07)	(2.02)					
Cross-Country Deal	-0.05*	-0.93	-1.06	-0.04	-0.90	-2.41***	84.77**	2.68	0.68**
	(-1.94)	(-1.52)	(-1.39)	(-1.62)	(-1.13)	(-2.75)	(2.39)	(0.23)	(2.05)
Asset Deal	0.02	-0.80	-1.17	-0.01	-1.64	-2.42*	27.74	35.98	0.79
	(0.39)	(-0.60)	(-1.19)	(-0.52)	(-1.25)	(-1.96)	(0.76)	(1.46)	(1.25)
Target Leverage	-0.01	0.62	1.23	0.05*	1.88	-0.79	-92.46*	2.44	-0.09
	(-0.34)	(0.69)	(1.29)	(1.75)	(1.53)	(-0.77)	(-1.87)	(0.13)	(-0.14)
Target EBIT/Assets	-0.02	-1.62	1.10	-0.02	-1.48	-4.66	35.57	-33.05	1.78**
	(-0.36)	(-1.01)	(0.47)	(-0.31)	(-0.55)	(-1.25)	(0.41)	(-1.17)	(2.33)
Relative Size	-0.00	0.04	0.13	0.00	0.00	0.19	-2.38	3.66	0.20**
	(-0.09)	(0.35)	(0.75)	(0.19)	(0.02)	(1.45)	(-0.48)	(1.50)	(2.55)
Approvals Required					-0.01	-1.43***	-1.37	13.04***	0.09
					(-0.07)	(-4.16)	(-0.24)	(2.90)	(1.51)
Log(Target Book Value)									-0.49***
									(-5.66)
Constant	0.91***	0.62	1.06	0.08	0.88	2.73	256.87***	-9.11	7.80***
	(15.74)	(0.34)	(0.49)	(1.50)	(0.37)	(1.42)	(3.22)	(-0.35)	(5.08)
Year Fixed Effects	YES	YES	YES	YES	YES	YES	YES	YES	YES
Obs.	105	98	105	72	73	105	101	105	105
Adjusted/Pseudo R^2	0.125	0.121	0.237	0.194	0.230	0.415	0.173	0.158	0.373

Table 5
Negotiation Outcomes and Relative Lawyer Expertise: Mitigating Endogeneity Concerns

This table reports OLS and logit regressions to explain the relation between relative lawyer experience and different negotiation outcomes in M&A transactions. We proxy for relative lawyer expertise using the variable *Relative Lawyer Expertise*. This index ranges between 0 and 1, where higher values indicate more legal expertise on the buyer's side. Panel A reports regressions only for those 99 out of 151 transactions where, for the law firm that provided the data, a client-law firm relation has been established prior to the current transaction. We evaluate whether a prior client-law firm relation has been established based on deal data in Merger Market. Panel B reports regressions that contain lawyer fixed effects. We account for lawyer fixed effects by including dummy variables for all lawyers of the law firm that provided the data. Panel C reports regressions with client fixed effects. We account for client fixed effects by including dummy variables for all clients that are involved in at least three transactions in the sample. A client can be in the sample either as buyer, seller, or both. Each column contains a regression with a different dependent variable (listed horizontally). The regressions use the same control variables as those in Table 3 (not reported). The regressions in Column 5 only contain deals where closing dates and signing dates are not the same. Detailed variable definitions are provided in Appendix A-1. We report in parentheses *t*-statistics, calculated using robust standard errors. *** indicates significance at 1%, ** at 5%, and * at 10%.

Dependent Variable:	**Contract Design**					**Bargaining Process**			**Pricing**
	%Warranties w/o Qualifier	Legal Compliance Warranty w/o Qualifier	Warranties Not Material	%Payment Secured	MAC Clause	First Draft By Buyer	Negotiation Time	Closing Time	Acquisition Premium
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: Repeat Transactions Only									
Relative Lawyer Expertise	0.24***	5.73**	6.08**	0.14**	7.74***	11.76***	-198.96***	-118.70***	-1.36
	(2.89)	(2.11)	(2.15)	(2.06)	(2.99)	(2.67)	(-2.92)	(-2.97)	(-1.38)
Panel B: Lawyer Fixed Effects									
Relative Lawyer Expertise	0.07	3.87	5.80*	0.11	11.73***	9.88***	-130.65*	-61.55*	-2.67**
	(1.47)	(1.30)	(1.90)	(1.03)	(3.13)	(3.93)	(-1.81)	(-1.86)	(-2.64)
Panel C: Client Fixed Effects									
Relative Lawyer Expertise	0.18***	3.04	9.37**	0.07	6.89*	9.71***	-127.07*	-67.87**	-2.03**
	(3.09)	(1.62)	(2.37)	(1.21)	(1.94)	(2.81)	(-1.91)	(-2.33)	(-2.23)

Table 6
Relative Lawyer Expertise: Placebo Regressions and Warranty Categories

This table reports OLS and logit regressions to explain the relation between relative lawyer expertise and measures of contract design where incentives of buyers and sellers are aligned: *Warranties*; *Covenants*; *Earnout; and Purchase Price Adjustment*. We further report regressions for the percentage of risk warranties that are not qualified with a knowledge qualifier. We report these regressions both for warranties that primarily overcome information asymmetry and for warranties that primarily allocate risk. We proxy for relative lawyer expertise using the variable *Relative Lawyer Expertise*. This index ranges between 0 and 1, where higher values indicate more legal expertise on the buyer's side. The sample consists of 151 acquisitions of private targets between 2005 and 2010. The regressions in Column 2 and 5 only contain deals where closing dates and signing dates are not the same. Detailed variable definitions are provided in Appendix A-1. We report in parentheses *t*-statistics, calculated using robust standard errors. *** indicates significance at 1%, ** at 5%, and * at 10%.

Dependent Variable:	**Warranties**	**Covenants**	**Earnout**	**Purchase Price Adjustment**	**%Info Warranties w/o Qualifier**	**%Risk Warranties w/o Qualifier**
	(1)	(2)	(3)	(4)	(5)	(6)
Relative Lawyer Expertise	5.68	0.04	0.12	1.72	0.04	0.34***
	(0.24)	(0.01)	(0.06)	(1.15)	(1.00)	(3.94)
Acquisition Premium	3.77	1.12			0.01	0.01
	(1.29)	(0.95)			(1.59)	(1.07)
Cross-Country Deal	18.45	-3.88	1.06	0.02	-0.04*	-0.07
	(1.60)	(-1.51)	(1.28)	(0.03)	(-1.97)	(-1.36)
Asset Deal	-36.15**	-13.54***	2.12	0.78	0.01	0.16**
	(-2.45)	(-5.05)	(1.36)	(0.75)	(0.31)	(2.05)
Target Leverage	35.36**	5.54	0.21	1.31	-0.04	-0.06
	(2.44)	(1.33)	(0.17)	(1.24)	(-1.03)	(-0.83)
Target EBIT/Assets	10.63	-21.09	-2.87	-4.38*	-0.07	-0.03
	(0.37)	(-1.50)	(-0.85)	(-1.91)	(-0.88)	(-0.22)
Relative Size	0.96	0.41	0.16	0.03	0.00	0.00
	(0.38)	(0.73)	(0.99)	(0.20)	(0.23)	(0.14)
Approvals Required	-0.70	1.30***	0.37*	0.10		
	(-0.36)	(2.81)	(1.79)	(0.60)		
Target Book Value (log)			-0.93***	-0.00		
			(-3.05)	(-0.02)		
					0.00	0.00
					(0.32)	(1.40)
Constant	53.81**	18.60***	13.59**	-0.25	0.97***	0.56***
	(2.28)	(3.88)	(2.34)	(-0.06)	(32.93)	(6.39)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	100	71	100	71	100	100
Adjusted/Pseudo R2	0.136	0.221	0.347	0.172	0.007	0.159

Table 7
Client-Lawyer Distance and Lawyer Expertise

This table reports OLS regressions to explain buyer and seller lawyer expertise in M&A transactions. We proxy for seller (buyer) lawyer expertise using the variable *Seller Lawyer Expertise (Buyer Lawyer Expertise)*, which is an index that ranges between 0 and 1, where higher values indicate more seller (buyer) legal expertise. The main independent variable is the geographic distance between the seller (buyer) and the seller (buyer) lawyer. The sample consists of 151 acquisitions of private targets between 2005 and 2010. Detailed variable definitions are provided in Appendix A-1. We report in parentheses *t*-statistics, calculated using robust standard errors. *** indicates significance at 1%, ** at 5%, and * at 10%.

Dependent Variable:	**Buyer Lawyer Expertise**			**Seller Lawyer Expertise**		
Sample:	**All Deals**	**Exclude Dutch Deals**	**All Deals**	**All Deals**	**Exclude Dutch Deals**	**All Deals**
	(1)	(2)	(3)	(4)	(5)	(6)
Log(Distance Buyer-Buyer Law Firm)	0.02**	0.02*	0.03*			
	(2.23)	(1.98)	(1.93)			
Log(Distance Seller-Seller Law Firm)				0.02*	0.01	0.04**
				(1.83)	(0.84)	(2.43)
Log(Distance Buyer-Buyer Law Firm) * High Buyer Deal Experience			-0.01			
			(-0.76)			
Log(Distance Seller-Seller Law Firm) * High Seller Deal Experience						-0.04*
						(-1.70)
High Buyer Deal Experience	-0.07*	-0.12**	-0.01			
	(-1.97)	(-2.23)	(-0.13)			
High Seller Deal Experience				-0.02	-0.03	0.14
				(-0.33)	(-0.35)	(1.25)
Log(Target Book Value)	0.01	0.01	0.01	0.04***	0.02	0.03***
	(0.75)	(0.98)	(0.84)	(3.22)	(1.64)	(2.85)
Target Leverage	0.04	-0.01	0.04	0.08	-0.03	0.08
	(0.79)	(-0.13)	(0.83)	(0.96)	(-0.28)	(1.04)
Target EBIT/Assets	-0.05	-0.00	-0.04	-0.00	-0.19	-0.04
	(-0.57)	(-0.04)	(-0.46)	(-0.01)	(-0.97)	(-0.25)
Relative Size	0.02***	0.02	0.02***	-0.03***	-0.01	-0.02***
	(2.94)	(1.40)	(2.89)	(-2.94)	(-0.83)	(-2.62)
Constant	0.17	0.11	0.12	-0.19	0.14	-0.17
	(0.92)	(0.41)	(0.61)	(-0.81)	(0.55)	(-0.79)
Obs.	126	64	126	119	63	119
Adjusted R^2	0.109	0.080	0.107	0.223	0.021	0.246

Appendix A-1
Definition of Variables

Variable	Description
Target Characteristics	
Transaction Value	Total amount of payments by the buyer to the seller. This amount is equal the target's market value of the equity unless the buyer purchases less than 100% of the equity.
Target Book Value	Book value of the target's assets based on the last financial accounts preceding the acquisition.
Target Market Value	Market value of the target's equity (estimated as the amount paid for the equivalent for 100% of target shares) plus the book value of liabilities. Liabilities include short term debt, long term debt, and provisions.
Target Leverage	Book value of the target's liabilities divided by target's book value of assets. Liabilities include short term debt, long term debt, and provisions.
Target EBIT/Assets	EBIT of the target divided by the target's book value of assets. If EBIT data is not available (48 observations), we use the mean value of EBIT/Assets (13.6%) of the sample.
Asset Deal	Dummy variable which takes the value 1 if the transaction is an asset deal (i.e., the target is a list of assets and liabilities which will transfer to the buyer), and 0 if it is a share deal or a combination of a share and an asset deal.
Buyer Characteristics	
Buyer Book Value	Book value of the assets of the buyer. If there is more than one buyer, we use a weighted average of the assets of the buyers. We use the percentage of the shares bought by the different buyers as weights.
Buyer Deal Experience	Number of transactions that a buyer has been engaged in over the five years preceding the signing date of a deal.
High Buyer Deal Experience	Dummy variable which takes the value 1 if the deal experience of the buyer (number of deals in the five years preceding the signing date of a deal) is above the sample median (5 deals), and 0 otherwise.
Buyer Private Equity	Dummy variable which takes the value 1 if the buyer is a private equity firm, and 0 otherwise. If there are more buyers, the variable takes the value 1 if the company that buys the highest portion of the shares is a private equity firm, and 0 otherwise.
Seller Characteristics	
Seller Book Value	Book value of the assets of the seller. If there is more than one seller in a transaction, we use the weighted average of the assets of the sellers. We use the percentage of the shares sold by the different sellers as weights.
Seller Deal Experience	Number of transactions that a seller has been engaged in over the five years preceding the signing date of a deal.
High Seller Deal Experience	Dummy variable which takes the value 1 if the deal experience of the seller (number of deals in the five years preceding the signing date of a deal) is above the sample median (5 deals), and 0 otherwise.
Seller Private Equity	Dummy variable which takes the value 1 if the seller is a private equity firm, and 0 otherwise. If there are more buyers, the variable takes the value 1 if the company that sells the largest portion of the shares is a private equity firm, and 0 otherwise.
Seller Family	Dummy variable which takes the value 1 if the seller is a private person or family, and 0 otherwise. If there are more sellers, the variable takes the value 1 if the party that sells the largest portion of the shares is a private person or family, and 0 otherwise.
Main Seller Percent	This variable indicates what percentage of the total amount of shares (or total value of assets) is sold by the main seller. If there are more sellers, the main seller is the one that sells the largest stake.
Deal Characteristics	
Cross-Country Deal	Dummy variable which takes the value 1 if the target is not located in the same country as the buyer, and 0 otherwise.
Approvals Required	Number of approvals which are to be obtained from competition or financial authorities between the signing and closing date. The closing date is the date at which there is a transfer of control of the target through the transfer of shares or assets.
Controlled Auction	Dummy variable which takes the value 1 if the transaction is organized through a controlled auction, and 0 otherwise.
Relative Size	Size of the buyer relative to the seller. To create this variable, we first calculate the ratio of the assets of the buyer to the assets of the seller. We then divide this ratio into ten deciles such that the resulting variable ranges between 1 (buyer small relative to the seller) and 10 (buyer is large relative to the seller).

Appendix A-1 (continued)

Contract Design	
%Warranties w/o Qualifier	Percentage of all warranties in a contract which are not qualified with a knowledge qualifier, which is the statement*: "so far as the seller is aware*" (or any equivalent thereof).
%Risk Warranties w/o Qualifier	Percentage of all warranties which are not qualified with a knowledge qualifier, which is the statement: *"so far as the seller is aware*" (or any equivalent thereof) in five (out of nine) warranty categories that primarily allocate risk. We define the following warranty categories as categories that primarily allocate risk: (i) legal (these warranties cover the following themes legal compliance, threatened or actual litigation, environmental compliance, etc.); (ii) contracts (contracts, enforceability of contracts, contracts with suppliers and buyers, guarantees, etc.); (iii) intellectual property (IP, patents, licenses, etc.) (iv) assets (legal ownership of assets, quality of target assets, etc.); and (v) business information.
%Info Warranties w/o Qualifier	Percentage of all warranties which are not qualified with a knowledge qualifier, which is the statement*: "so far as the seller is aware*" (or any equivalent thereof) in four (out of nine) warranty categories that primarily reduce information asymmetry. We define the following warranty categories as categories that primarily reduce information asymmetry: (i) corporate records (these warranties cover the following themes: organization of target, list of subsidiaries, bylaws, legal existence of target, minutes of past board meetings, capital, authorized decision makers, etc.); (ii) financial accounts (financial accounts, internal financial statements, changes since the accounts date, taxes, etc.); (iii) employees (employee pay, resumes of target management, agreements with unions, strikes, pensions, employee benefits, etc.); (iv) insurance matters (insurance contracts, insurance coverage, indemnification agreements, etc.)
Legal Compliance Warranty w/o Qualifier	Dummy variable which takes the value 1 if the contract does *not* contain a legal compliance warranty that is qualified with a knowledge qualifier, which is the statement *"so far as the seller is aware*" (or any equivalent thereof), and 0 otherwise. A legal compliance warranty states that the business of the target is being conducted in compliance with all applicable laws.
Warranties Not Material	Dummy variable which takes the value 1 if a contract contains a clause that states that warranty breaches do *not* need to be material, and 0 if the contract stipulates that warranty breaches need to be material.
%Payment Secured	Percentage of the total transaction value which is secured to be available for claims the buyer may have at a later point in time towards the seller. This money is secured by placing it in an Escrow account, an obligation to maintain cash reserves, or a bank guarantee. The variable is winsorized at 5%.
MAC Clause	Dummy variable which takes the value 1 if the contract stipulates that the transaction does not have to be completed if a material adverse event occurs in the period between the signing date and the closing (transfer) date, and 0 otherwise.
Warranties	Number of warranties in a contract. Warranties provide statements about target (or seller) quality. Each separate quality statement is considered as a separate warranty.
Covenants	Number of covenants in a contract. Covenants prescribe the behavior of the target and the seller in the period between the signing date and the closing (transfer) date. Each separate prescription of behavior is considered a separate covenant.
Bargaining Process	
First Draft By Buyer	Dummy variable which takes the value 1 if the first draft of the contract was provided by the buyer's lawyer, and 0 if it was provided by the seller's lawyer.
Negotiation Time	Number of days between the start of negotiations over a transaction and the signing of a contract. The start of the transaction negotiations is defined as the date at which the law firm which has provided the data has opened a file on a transaction.
Closing Time	Number of days between the signing date and the closing date. The closing date is the date at which control over the target is transfer from the seller to the buyer through the transfer of shares or assets.
Pricing	
Acquisition Premium	Market value of the target divided by the book value of the target. The market value of the target is estimated as the amount paid for the equivalent for 100% of target shares plus the book value of liabilities of the target. Liabilities include short term debt, long term debt, and provisions. The variable is winsorized at 2%.
Earnout	Dummy variable which takes the value 1 if the contract stipulates that part of the purchase price will be conditional on target performance after the closing date, and 0 otherwise.
Purchase Price Adjustment	Dummy variable which takes the value 1 if the contract contains a purchase price adjustment, and 0 otherwise. A purchase price adjustment is an adjustment to the purchase price based on book values of the target on the closing date.

Appendix A-1 (continued)

Lawyer Expertise	
Years as Partner	Variable which reflects the years of experience of the buyer's lead lawyer relative to that of the seller's lead lawyer. Years of experience is the number of years between the year in which the lead lawyer has been promoted to partner status and the year in which a contract is signed. The ratio is standardized such that it ranges between 0 (more seller lawyer experience) and 1 (more buyer lawyer experience). Transactions where the seller (buyer) has not requested legal advice are coded such that the variable takes the value 1 (0). The variable is winsorized at 5%.
Deal Experience	Variable which reflects the deal experience of the buyer's lead lawyer relative to that of the seller's lead lawyer. Deal experience is the number of deals that a lawyer has advised on between 01/1995 and 05/2010. The ratio is standardized such that it ranges between 0 (more seller lawyer experience) and 1 (more buyer lawyer experience). Transactions where the seller (buyer) has not requested legal advice are coded such that the variable takes the value 1 (0). The variable is winsorized at 5%.
M&A Specialist	Variable which takes three values: 0 if only the seller's lead lawyer is an M&A specialist; 0.5 if both or neither lead lawyers are M&A specialists; and 1 if only the buyer's lead lawyer is an M&A specialist. A lead lawyer is considered an M&A specialist if the corporate web-profile of the lawyer explicitly specifies M&A law as the specialization of the lawyer (rather than other specializations such as tax law or competition law).
M&A Expert Listing	Variable which takes three values: 0 if only the seller's lead lawyer is recommended in the Chambers Expert Lawyer ranking; 0.5 if both or neither lead lawyers are recommended in the ranking; and 1 if only the buyer's lead lawyer is recommended in the ranking. The Chambers Expert Lawyer ranking provides information on "the world's leading lawyers."
Law School Ranking	Variable which reflects the quality of the law school at which the buyer's lead lawyer has studied relative to that of the seller's lead lawyer. We employ the 2012 law school ranking from www.topuniversities.com. We use the inverse of the rank to ensure that higher values indicate higher quality. The ratio is standardized such that it ranges between 0 (seller lawyer from better university) and 1 (buyer lawyer from better university). The variable is winsorized at 5%.
US Education	Variable which takes three values: 0 if only the seller's lead lawyer has studied at a US law school; 0.5 if both or neither lead lawyers have studied at a US law school; and 1 if only the buyer's lead lawyer has studied at a US law school.
Relative Lawyer Expertise	Index variable which measures relative lawyer expertise and reflects the legal expertise of the buyer layer relative to the legal expertise of the seller lawyer. The variable averages the following six relative lawyer expertise measures that are defined above: (i) Years as Partner; (ii) Deal Experience; (iii) M&A Specialist; (iv) M&A Expert Listing; (v) Law School Ranking; and (vi) US Education. The resulting variables ranges between 0 (more seller lawyer expertise) and 1 (more buyer lawyer expertise).
Seller Lawyer Expertise	Index variable which measures the legal expertise of the seller lawyer only. The variable average six expertise measures of the seller lawyer only: (i) Years as Partner; (ii) Deal Experience; (iii) M&A Specialist; (iv) M&A Expert Listing; (v) Law School Ranking; and (vi) US Education. The variable ranges between 0 (low seller lawyer expertise) and 1 (high seller lawyer expertise).
Buyer Lawyer Expertise	Index variable which measures the legal expertise of the buyer lawyer only. The variable average six expertise measures of the buyer lawyer only: (i) Years as Partner; (ii) Deal Experience; (iii) M&A Specialist; (iv) M&A Expert Listing; (v) Law School Ranking; and (vi) US Education. The variable ranges between 0 (low buyer lawyer expertise) and 1 (high buyer lawyer expertise).
Other Advisor Variables	
Buyer Law Firm Top 10	Dummy variable which takes the value 1 if the buyer's law firm is ranked in the top 10 based on a ranking that uses the number of transactions advised on between 1995 and 2010, and 0 otherwise.
Seller Law Firm Top 10	Dummy variable which takes the value 1 if the seller's law firm is ranked in the top 10 based on a ranking that uses the number of transactions advised on between 1995 and 2010, and 0 otherwise.
Buyer Bank Top 10	Dummy variable which takes the value 1 if the buyer's bank is ranked in the top 10 based on a ranking that uses the number of transactions advised on between 1995 and 2010, and 0 otherwise.
Seller Bank Top 10	Dummy variable which takes the value 1 if the seller's bank is ranked in the top 10 based on a ranking that uses the number of transactions advised on between 1995 and 2010, and 0 otherwise.
Distance Buyer-Buyer Law Firm	Geographic distance between the buyer and the buyer law firm in km.
Distance Seller-Seller Law Firm	Geographic distance between the seller and the seller law firm in km.

Appendix A-2
Additional Sample Characteristics

Panel A provides summary statistics of the location, advisor, and industry distribution of the targets, sellers, and buyers in the sample. The sample consists of 151 acquisitions of private targets between 2005 and 2010. Panel B reports information on the different types of buyers and sellers in the sample and cross-tabulates their frequency. Panel C reports information on the location of buyers and sellers in the sample and cross-tabulates their frequency. Across all panels, statistics are reported at the acquisition level.

Panel A: Location, Advisor, and Industry Distribution of Sample

Location	**Target**	**Buyer**	**Seller**
The Netherlands	85%	59%	79%
Western Europe (excl. NL)	10%	26%	15%
North America	2%	9%	3%
Rest of World	2%	6%	2%
Advisors	**Target**	**Buyer**	**Seller**
In-House Lawyer	n/a	5%	11%
Lawyer Switch	n/a	31%	11%
Law Firm Top 10	n/a	15%	15%
Client/Law Firm Different Countries	n/a	29%	13%
Bank Top 10	n/a	19%	12%
Industry	**Target**	**Buyer**	**Seller**
Insurance & Real Estate	11%	37%	45%
Manufacturing	28%	17%	23%
Public Administration	0%	0%	1%
Services	32%	16%	5%
Transportation & Communication	9%	10%	7%
Wholesale Trade	12%	13%	11%
Other Industry	8%	7%	8%

Panel B: Cross-Table of Buyer and Seller Types

		Seller Type					
		Strategic	Family	Private Equity	Financial	Government	Total
Buyer Type	Strategic	38%	13%	8%	3%	1%	64%
	Family	1%	0%	0%	1%	0%	1%
	Private Equity	11%	4%	6%	1%	0%	22%
	Financial	3%	0%	1%	2%	0%	7%
	Government	5%	1%	0%	0%	1%	7%
	Total	58%	18%	15%	7%	2%	100%

Panel C: Cross-Table Buyer and Seller Locations

		Seller Location				
		The Netherlands	Europe (excl. NL)	North America	Rest of World	Total
Buyer Location	The Netherlands	48%	10%	0%	1%	59%
	Europe (excl. NL)	20%	3%	1%	2%	26%
	North America	7%	1%	1%	0%	9%
	Rest of World	4%	1%	1%	0%	6%
	Total	79%	15%	3%	3%	100%

Appendix A-3
Comparison of Sample with Merger Market

This table compares mean values of transaction characteristics (Panel A) as well as target, seller, and buyer characteristics (Panel B) of our sample to those of private acquisitions in Merger Market. We select Merger Market acquisitions with at least one of the involved parties located in The Netherlands (2,601 deals). As not all the deals in our sample are reported in Merger Market, our sample is restricted in this comparison to 119 deals only. We report difference-in-means tests that compare our sample with the Merger Market sample. *** indicates significance at 1%, ** indicates significance at 5% and * indicates significance at 10%.

Panel A: Comparison of Transaction Characteristics

	Transaction		
	This Study	**Merger Market**	**Difference**
Transaction Value (mEUR)	555	242	314**
Value Announced	52%	39%	13%**
Equity Payment	2%	2%	0%
Percentage Equity Payment	2%	2%	0%
EBIT Multiple	15.8	36	-20.2
EBITDA Multiple	10	44.9	-34.9
Cross Border	51%	66%	-15%***
Controlled Auction	3%	2%	1%
Management Buyout	15%	11%	4%*
Private Equity	11%	11%	0%
Secondary Buyout	9%	5%	5%**

Panel B: Comparison of Target, Seller, and Buyer Characteristics

Location	**Target**			**Buyer**			**Seller**		
	This Study	**Merger Market**	**Diff.**	**This Study**	**Merger Market**	**Diff.**	**This Study**	**Merger Market**	**Diff.**
The Netherlands	86%	57%	29%***	57%	66%	-9%**	83%	43%	39%***
Europe (excl. NL)	12%	29%	-17%***	26%	21%	5%	12%	35%	-23%***
North America	2%	6%	-4%**	11%	9%	0.02	3%	14%	-11%**
Rest of World	1%	5%	-4%**	5%	4%	0.01	2%	6%	-4%**
Advisors	**Target**			**Buyer**			**Seller**		
	This Study	**Merger Market**	**Diff.**	**This Study**	**Merger Market**	**Diff.**	**This Study**	**Merger Market**	**Diff.**
Advised by Our Law Firm	n/a	n/a	n/a	50%	2%	-2%***	36%	2%	-2%***
# Law Firms Involved	n/a	n/a	n/a	1.8	0.8	-0.8***	1.2	0.5	-0.5***
Top 10 Law Firm Involved	n/a	n/a	n/a	10%	15%	-15%	18%	11%	-11%**
Bank Involved	n/a	n/a	n/a	43%	30%	-30%***	63%	38%	-38%***
Number of Banks Involved	n/a	n/a	n/a	55%	35%	-35%***	86%	45%	-45%***
Top 10 Bank Involved	n/a	n/a	n/a	18%	9%	-9%***	17%	11%	-11%**

Appendix A-4
Overview of Negotiation Process

This table provides an overview of the negotiation process for the acquisitions of privately targets, based on the acquisition files and interviews with 14 lead lawyers (partners) of our law firm. It is complemented with information from Freund (1975), Frankel (2005), and Clifford Chance (2011). We report the negotiation process separately for acquisitions organized with and without auctions.

Step	Issue	One-on-One Negotiations	Auction
Step 1	Signaling Interest	• Buyer or seller initiates the contact, either directly or via advisors. • If seller initiates the sale, often a "teaser" is provided: a two-page document with initial information on the target.	• Seller initiates negotiations and searches (via banks) for potentially interested buyers. • Bidders are contacted with a "teaser": a two-page document with initial information on the target.
Step 2	Non-Disclosure Agreement	• Parties sign a non-disclosure agreement (NDA), where they commit to keep information confidential.	• Interested bidders sign a non-disclosure agreement.
Step 3	Information Memorandum	• Seller provides more detailed information about the target, often in a formal information memorandum (IM).	• Seller provides more detailed information about target financials and performance.
Step 4	Letter of Intent	• Buyer indicates an initial (non-binding) offer price. • Parties may sign a Letter of Intent (LOI), which outlines the initial price, the structure of the deal, and exclusivity during negotiations. Usually prepared by a law firm.	• Bidders indicate their initial offers through (i) an offer LOI, or (ii) an offer mark-up of a seller-provided contract draft (which includes the price). • Seller selects a few bidders and continues negotiations with them.
Step 5	Due Diligence	• Buyer engages in an in-depth due diligence investigation of the target, usually with the help of an investment bank.	• Seller provides a due diligence report containing detailed target information.
Step 6	Contract Negotiation	• One party provides a first draft of an initial acquisition contract, based on a sample provided by the advising law firms. • Negotiations take place and are reflected in the contract through mark-ups of the draft. • This can continue for many rounds of mark-ups. • Adjustments to the initial offer price are typically only downwards as new information arises and warranties or covenants are not granted to the buyer.	• Unless done in Step 4, the seller provides a draft acquisition contract. • Bidders provide a binding offer, which contains a combination of a price and a mark-up of the draft acquisition contract. • Price and contract provisions are determined jointly in the offers that bidders make. • Seller selects the final bidder(s) to finalize negotiations.
Step 7	Signing	• Parties sign the acquisition contract, specifying the conditions that need to be fulfilled before the closing. • Closing conditions may also allow for renegotiations if information arises and/or adverse events occur.	• After final negotiations, the seller chooses the winning bidder and both parties sign the contract. • A set of closing conditions may apply as in the one-on-one negotiations.
Step 8	Closing	• Transfer of control of the target from the seller to the buyer.	• Transfer of control of the target from the seller to the buyer.

Appendix A-5
Negotiating Outcomes: Buyer and Seller Interests

This table provides an overview of the negotiation outcomes considered in our analysis and the economic interests of buyers and sellers, respectively.

	Buyers		Sellers	
	Prefer	**Reason**	**Prefer**	**Reason**
Contract Design				
%Warranties w/o Qualifier	High	Warranties can come with the statement: *"so far as the seller is aware"*. Without such a knowledge qualifier, warranties also cover issues that sellers are unaware of (i.e., sellers provides insurance). So buyers prefer more warranties without knowledge qualifiers.	Low	Warranties can come with the statement: *"so far as the seller is aware"*. This implies that the sellers do not provide insurance for issues they are unaware of. Sellers prefer more warranties with a knowledge qualifier.
Legal Compliance Warranty w/o Qualifier	Yes	Warranty on legal compliance can come with the statement: *"so far as the seller is aware"*. Without such a knowledge qualifier, the warranty also cover issues that sellers are unaware of (i.e., sellers provides insurance). So buyers prefer this warranty without a knowledge qualifier.	No	Warranty on legal compliance can come with the statement: *"so far as the seller is aware"*. Without such a qualifier, the warranty also cover issues that sellers are unaware of (i.e., sellers provides insurance). So sellers prefer this warranty with a knowledge qualifier.
Warranties Not Material	Yes	If warranties breaches need to be material, they are more difficult to enforce. Buyers prefer that this provision is not included, so that all warranty breaches can be enforced.	No	If warranties breaches need to be material, they are more difficult to enforce. Sellers prefer that this provision is included, so that warranty breaches are difficult to enforce.
%Payment Secured	High	Buyer wants to secure as much money as possible to ensure that seller can pay any damage claims that may come up.	Low	Sellers want to place as little money as possible in a secured account, as this implies that sellers cannot yet have access to this money.
MAC Clause	Yes	A MAC clause allows buyers to cancel a deal if an adverse event occurs between signing and closing. Buyers prefer including a MAC clause, as this places the risk of such events on sellers.	No	Sellers prefer not including a MAC clause, as this places the risk of adverse events on buyers, and increases deal certainty.
Bargaining Process				
First Draft By Buyer	Yes	Buyers prefer to deliver the first draft contract, as this provides a first-mover advantage due to path dependence in negotiations.	No	Sellers prefer to deliver the first draft contract, as this provides a first-mover advantage due to path dependence in negotiations.
Negotiation Time	Short	Buyers prefer short negotiation times to minimize transactions costs and to reduce moral hazard on the side of the target's management once it hears that a deal is pending. Buyers also prefer short negotiation times to avoid that the period of exclusive negotiations expires. These periods (specifying that sellers may not contact other bidders) are usually set at the start of negotiations in an LOI.	Mixed	On the one hand, sellers prefer short negotiation times to minimize transactions costs. On the other hand, sellers prefer long negotiation times so that the period of exclusive negotiations expires. Upon expiration of this period, sellers can shop around for higher offers by alternative bidders.
Closing Time	Short	Buyers prefer short closing times (time between signing and closing) as sellers still control the targets until closing even though the price has been fixed. Until the closing, sellers can act opportunistically and extract private benefits from targets.	Long	Sellers prefer long closing times (time between signing and closing) as sellers still have control over the target until closing whereas the prices have been fixed. Until closing, sellers can act opportunistically and extract private benefits from targets.
Pricing				
Acquisition Premium	Low	Buyers prefer to pay a low price.	High	Sellers prefer to receive a high price.

Appendix A-6
Underlying Lawyer Expertise Variables: Summary Statistics

This table provides an overview of the legal expertise of the lead lawyers representing the buyer and seller, respectively. This data is used to create the relative legal expertise variables. Note that the variables reported in this panel are therefore not yet standardized to range between 0 and 1. Statistics are reported at the acquisition level.

	Advisor of Buyer				Advisor of Seller			
	Mean	**Median**	**Std. Dev.**	**Obs.**	**Mean**	**Median**	**Std. Dev.**	**Obs.**
Years as Partner (in years)	7.9	7.0	6.2	139	6.7	6.0	5.7	132
Deal Experience (number of deals)	34.5	32.0	25.4	144	32.7	30.5	28.3	134
M&A Specialist	89%			143	79%			140
M&A Expert Listing	64%			151	46%			151
Law School Ranking (inverse of rank)	0.07	0.02	0.17	140	0.07	0.02	0.18	135
US Education	25%			143	21%			136

Appendix A-7
Negotiation Outcomes: Separate Effects of Index Components

This table reports OLS and logit regressions to explain negotiation outcomes in M&A transactions. The sample consists of 151 acquisitions of private targets between 2005 and 2010. We report the coefficient (*t*-statistic) of the six different relative expertise variables (reported vertically) that make up the index *Relative Lawyer Expertise*. We report coefficients (*t*-statistics) for regressions with different dependent variables (listed horizontally). The six different relative expertise variables range between 0 and 1, where higher values indicate more legal expertise on the buyer's side. The regressions use the same control variables as those in Table 3 (not reported). The regressions in Column 5 only contain deals where closing dates and signing dates are not the same. Detailed variable definitions are provided in Appendix A-1. We report *t*-statistics in parentheses, calculated using robust standard errors. *** indicates significance at 1%, ** at 5%, and * at 10%.

	Contract Design					**Bargaining Process**			**Pricing**
Dependent Variable:	%Warranties w/o Qualifier	Legal Compliance Warranty w/o Qualifier	Warranties Not Material	%Payment Secured	MAC Clause	First Draft By Buyer	Negotiation Time	Closing Time	Acquisition Premium
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Years as Partner	0.08**	1.63*	1.68	0.03	0.94	2.17**	-99.77***	-62.19***	-0.92**
	(2.27)	(1.72)	(1.56)	(0.83)	(1.00)	(2.09)	(-2.95)	(-3.50)	(-2.06)
Deal Experience	0.09***	1.48	3.67**	0.07*	1.14	1.92**	-76.83**	-43.40***	-1.06**
	(2.96)	(1.50)	(2.21)	(1.83)	(1.15)	(2.37)	(-2.18)	(-2.97)	(-2.08)
M&A Specialist	0.14**	-1.18	1.98*	0.04	1.44	3.17**	-76.56**	-68.53**	-1.63***
	(2.18)	(-1.24)	(1.94)	(0.83)	(1.04)	(2.25)	(-2.02)	(-2.57)	(-2.88)
M&A Expert Listing	0.04	-0.45	1.23*	0.06**	1.53**	1.33*	-57.38	-16.77	-0.84*
	(1.42)	(-0.55)	(1.76)	(2.47)	(2.01)	(1.92)	(-1.53)	(-0.84)	(-1.91)
Law School Ranking	0.07**	3.84*	2.14**	-0.00	1.66**	2.18***	-69.72**	-27.66*	-0.89**
	(2.28)	(1.73)	(1.98)	(-0.07)	(2.27)	(2.83)	(-2.35)	(-1.96)	(-1.99)
US Education	0.12***	2.67***	2.69**	0.00	1.41*	2.11**	-28.06	-9.04	-0.23
	(2.95)	(2.81)	(2.56)	(0.01)	(1.96)	(2.52)	(-0.72)	(-0.32)	(-0.43)

Appendix A-8
Negotiation Outcomes and Lawyer Expertise: Additional Control Variables

This table reports OLS and logit regressions to explain the relation between relative lawyer expertise and negotiation outcomes in M&A transactions. We proxy for relative lawyer expertise using the variable *Relative Lawyer Expertise*. This index ranges between 0 and 1, where higher values indicate more legal expertise on the buyer's side. We report the coefficient (*t*-statistic) of *Relative Lawyer Expertise* for regression with different dependent variable (listed horizontally). The regressions use the same control variables as those in Table 3 (not reported). The regressions in Panel A, in addition, control for *Seller Law Firm Top 10* and *Buyer Law Firm Top 10* (not reported). The regressions in Panel B, in addition, control for proxies of bargaining power using the following variables: *Buyer Deal Experience*; *Seller Deal Experience;* and *Controlled Auction* (not reported). The regressions in Panel C, in addition, control for proxies of risk-bearing capacity of buyers and sellers using the following variables: *Buyer Private Equity*; *Seller Private Equity; Seller Family;* and *Main Seller Percent* (not reported). The regressions in Column 5 only contain deals where closing dates and signing dates are not the same. Detailed variable definitions are provided in Appendix A-1. We report *t*-statistics in parentheses, calculated using robust standard errors. *** indicates significance at 1%, ** at 5%, and * at 10%.

	Contract Design					**Bargaining Process**			**Pricing**
Dependent Variable:	%Warranties w/o Qualifier	Legal Compliance Warranty w/o Qualifier	Warranties Not Material	%Payment Secured	MAC Clause	First Draft By Buyer	Negotiation Time	Closing Time	Acquisition Premium
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: Controlling for Law Firm Rank									
Relative Lawyer Expertise	0.15***	4.13***	4.79**	0.10	3.74*	8.21**	-134.57**	-54.19**	-1.93**
	(3.87)	(2.58)	(2.47)	(1.50)	(1.70)	(2.30)	(-2.47)	(-2.38)	(-2.38)
Panel B: Controlling for Bargaining Power									
Relative Lawyer Expertise	0.15***	3.15*	4.41**	0.09	4.81**	7.97***	-180.36***	-84.06***	-2.04**
	(2.71)	(1.80)	(2.57)	(1.49)	(2.51)	(3.20)	(-3.29)	(-2.93)	(-2.35)
Panel C: Controlling for Risk-Bearing Capacity									
Relative Lawyer Expertise	0.15***	3.82**	5.58***	0.04	5.99**	7.73***	-161.86***	-74.36***	-1.97**
	(3.10)	(2.42)	(2.98)	(1.06)	(2.35)	(2.99)	(-3.04)	(-2.82)	(-2.28)

Appendix A-9
Robustness Checks on Acquisition Premium

This table reports OLS regressions to explain the relation between relative lawyer expertise and pricing in M&A transactions. The regressions use the *Acquisition Premium* as dependent variable. All regressions also control for the variables used in Table 3 (not reported). Detailed variable definitions are provided in Appendix A-1. We report *t*-statistics in parentheses, calculated using robust standard errors. *** indicates significance at 1%, ** at 5%, and * at 10%.

Dependent Variable:	**Acquisition Premium**	
	(1)	(2)
Relative Lawyer Expertise	-2.01**	-1.98**
	(-2.53)	(-2.33)
Buyer Bank Top 10	0.10	
	(0.28)	
Seller Bank Top 10	0.46	
	(1.05)	
%Warranties w/o Qualifier		1.74
		(1.65)
Legal Compliance Warranty w/o Qualifier		-0.17
		(-0.37)
Warranties Not Material		-0.24
		(-0.72)
%Payment Secured		-1.66
		(-0.81)
MAC Clause		-0.51*
		(-1.95)
Year Fixed Effects	Yes	Yes
Controls	Yes	Yes
Obs.	103	102
Adjusted R2	0.353	0.365

Appendix A-10
Negotiation Outcomes: Correlations

This table reports the correlation coefficients between negation outcomes variables. * indicates significance at least at the 5% level.

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Warranties	(1)	1											
%Warranties w/o Qual.	(2)	0.0224	1										
Legal Compliance Warranty w/o Qualifier	(3)	-0.0084	0.3534*	1									
Warranties Not Material	(4)	0.2637*	0.2065*	0.0612	1								
%Payment Secured	(5)	0.2633*	0.1469	0.0351	0.1826*	1							
Covenants	(6)	0.2267*	0.0068	-0.0699	0.2199*	-0.0463	1						
MAC Clause	(7)	0.2158*	-0.0198	0.0126	0.0847	0.0524	0.3399*	1					
First Draft By Buyer	(8)	0.2442*	0.2794*	0.1883*	0.2239*	0.3136*	-0.2681*	0.095	1				
Negotiation Time	(9)	-0.0311	-0.085	-0.079	-0.1821*	-0.1535	0.0383	0.1454	-0.1291	1			
Closing Time	(10)	-0.0082	-0.1209	-0.0926	0.1325	-0.1178	0.4763*	0.2075*	-0.2856*	0.0618	1		
Acquisition Premium	(11)	0.1893*	0.116	-0.0024	0.0719	0.1626	-0.101	-0.0499	0.1593	-0.2028*	-0.0874	1	
Earnout	(12)	0.0495	0.1176	-0.0698	0.0463	0.1196	-0.1689*	0.0322	0.105	-0.0473	-0.1012	0.3132*	1
Purchase Price Adjustment	(13)	0.2424*	0.032	-0.0299	0.0256	0.0227	0.1105	0.1491	-0.1082	0.3068*	0.0626	-0.0201	0.0302